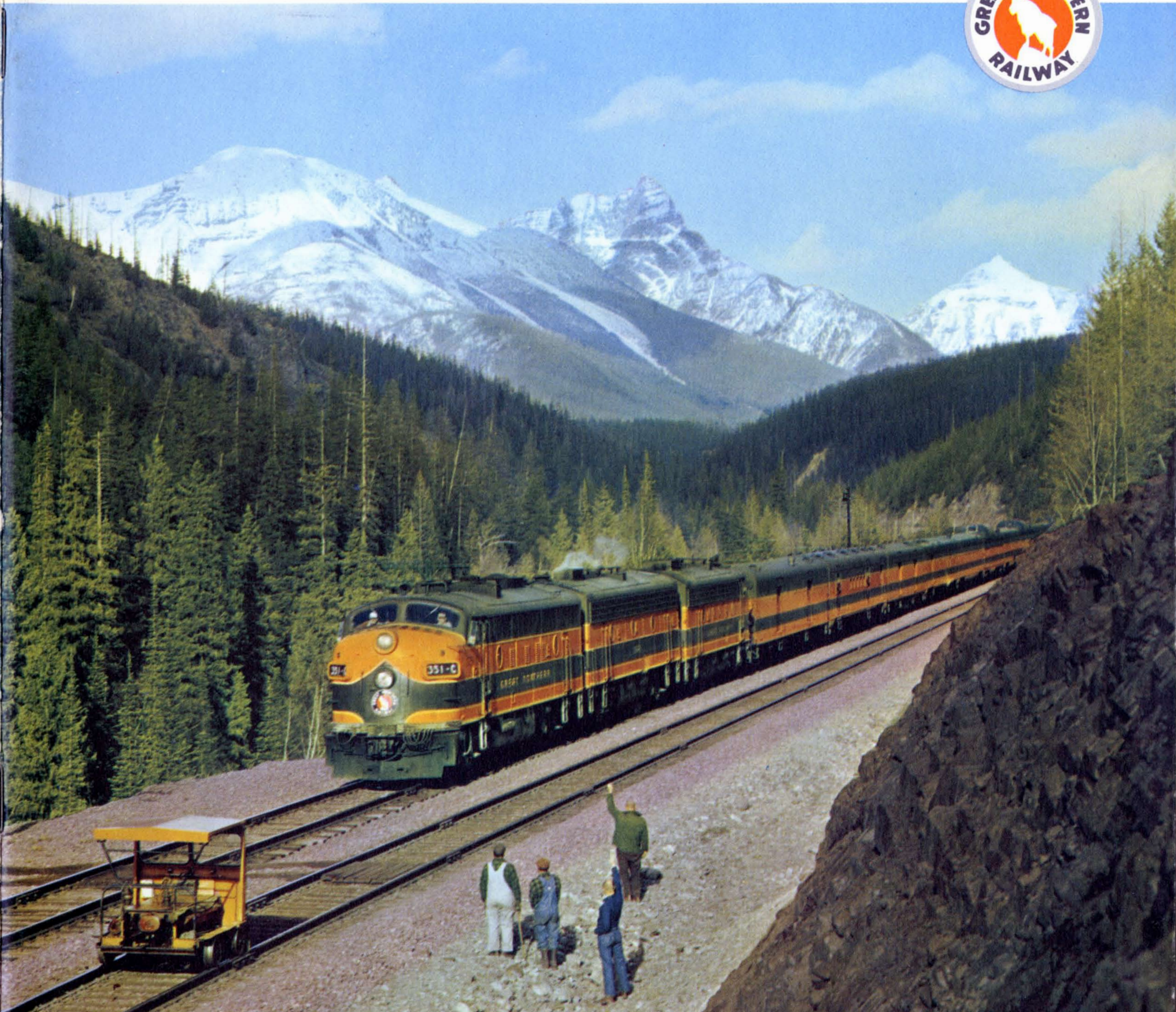
GREAT NORTHERN RAILWAY 1960



SEVENTY-SECOND ANNUAL REPORT

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GREAT NORTHERN RAILWAY COMPANY

General Offices
Great Northern Railway Building
St. Paul, Minnesota

SEVENTY-SECOND ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 31, 1960

Springtime is a season of delightful contrasts in the Montana Rockies . . . a particularly pleasurable time to be rolling westward on the Empire Builder. Our cover photo shows the "Queen of the Rails" as it skirts the southern boundary of spectacular Glacier National Park in early May.

HIGHLIGHTS OF 1960

Item	1960	1959	Increase-I Decrease-D	
Income Account (Millions of Dollars)				
Net Income	$ 20.72	$ 26.56	$ 5.84	D
Operating Revenues	246.02	254.56	8.54	D
Operating Expenses—Wages	119.03	120.51	1.48	D
Operating Expenses—Depreciation	14.62	14.13	.49	I
Operating Expenses—Total	194.05	197.11	3.06	D
Taxes	28.70	29.86	1.16	D
Available for Fixed Charges	29.21	34.97	5.76	D
Fixed Charges	8.49	8.42	.07	I
Financial Condition Dec. 31, (Millions of Dollars)				
Cash and Special Deposits	$ 60.38	$ 63.46	$ 3.08	D
Total Current Assets	101.76	104.93	3.17	D
Current Liabilities	51.46	35.83	15.63	I
Working Capital	50.30	69.10	18.80	D
Net Investment in Transportation Property	652.53	647.42	5.11	I
Long Term Debt	246.03	262.10	16.07	D
Net-Worth—Shareholders' Equity	640.10	640.06	.04	I
Gross Expenditures for Property Improvements	24.62	20.41	4.21	I
Financial Statistics				
Dividends Paid	$ 18.29	$ 18.31	$ .02	D
Times Fixed Charges Earned	3.44	4.16	.72	D
Per Cent Return on Property Investment	2.64	3.45	.81	D
Per Cent Revenues				
Carried Through to Net Income	8.42	10.43	2.01	D
Taken by Transportation Expenses	36.81	35.52	1.29	I
Taken by Maintenance Expenses	34.48	34.48	—	
Taken by All Operating Expenses	78.87	77.43	1.44	I
Average Per Share of Capital Stock 6,079,662 Shares Dec. 31, 1960				
Operating Revenues	$ 40.47	$ 41.73	$ 1.26	D
Net Income Before Taxes on Income	4.37	5.63	1.26	D
Income Taxes	.96	1.27	.31	D
Total Taxes	4.72	4.89	.17	D
Net Income After All Taxes	3.41	4.35	.94	D
Dividends Paid	3.00	3.00	—	
Fixed Charges	1.40	1.38	.02	I
Shareholders' Equity	105.29	104.91	.38	I
Operating Statistics				
Miles of Road Operated	8,292	8,292	—	
Train Miles (Millions)	15.99	16.92	.93	D
Revenue Net Ton Miles (Billions)	15.84	15.67	.17	I
Passengers Carried One Mile (Millions)	409.36	435.19	25.83	D
Revenue per Net Ton Mile (Cents)	1.38	1.45	.07	D
Revenue per Passenger Mile (Cents)	2.29	2.31	.02	D
Train Load—Net Tons	1,427.78	1,383.12	44.66	I
Net Ton Miles per Freight Car Day	1,002.39	1,012.23	9.84	D
Gross Ton Miles per Train Hour	64,808	63,066	1,742	I
Employes				
Number of Employes	19,863	20,539	676	D
Total Wages (Millions)	$ 123.95	$ 125.22	$ 1.27	D
Benefits for Employes, Including Payroll Taxes, Health and Welfare, etc. (Millions)	$ 21.55	$ 21.36	$ .19	I
Straight Time Wages per Hour	$ 2.80	$ 2.73	$ .07	I
Earnings per Employe per Year	$ 6,240	$ 6,097	$ 143	I

To Great Northern Shareholders:

Significant events of 1960 are reviewed in this seventy-second annual report. While operating results for the year were disappointing, there were several important developments which will prove fruitful in future years.

Lower revenues, reflecting depressed business activity, and higher expenses resulting from increased wage rates and costs of materials, reduced net income for 1960 to \$3.41 per share from \$4.35 in 1959. Dividends were continued at \$3.00 per share. While working capital and cash were lowered by retirement of \$16.7 million of bonds at maturity and by investments made during the year, Great Northern's current position remains at a satisfactory level.

Progress on the merger with Northern Pacific, Burlington and Spokane, Portland and Seattle railways was the most important event of the year. Suitable terms were reached and approved by the Directors of the various companies in July. Since then, details of the plan have been worked out and an application for approval filed with the Interstate Commerce Commission. Great Northern stockholders will receive complete information on the proposal early in April and will be asked to vote on it at the annual meeting on May 11, 1961.

Other railroads also are considering plans for consolidations. Of especial interest to Great Northern is the attempt by both Southern Pacific and Santa Fe railways to obtain control of Western Pacific through stock ownership. Great Northern's position in this case is that the public interest would be better served if Santa Fe acquires control. To protect our interest, 175,000 shares of Western Pacific stock were acquired—about 9.6% of the total. The Interstate Commerce Commission will give consideration to the proposals during 1961.

Many working rules in the railway industry, particularly those covering employes operating trains and yard locomotives, have not kept pace with technical advances in equipment or with increasing competition from other forms of transportation. Basic determination of these rules occurred during World War I and there has since been only limited review of them. Interpretations of the National Railway Adjustment Board in the past several years have in many instances unfortunately changed beyond recognition the original intent. A commission appointed by President Eisenhower late in 1960 began a thorough review of these rules in February 1961, and is expected to make known its conclusions by December. Findings of the commission will not be binding but, backed by public opinion, should form the basis for long needed changes.

During 1960, Great Northern disposed of its hotel and bus properties in Glacier National Park, in Montana, and in Waterton Lakes National Park in Canada. At one time those enjoying this magnificent vacationland came mostly by train. They now travel almost exclusively in their own automobiles. The new owners of the properties will continue to provide excellent facilities and services for our passengers as well as those who drive.

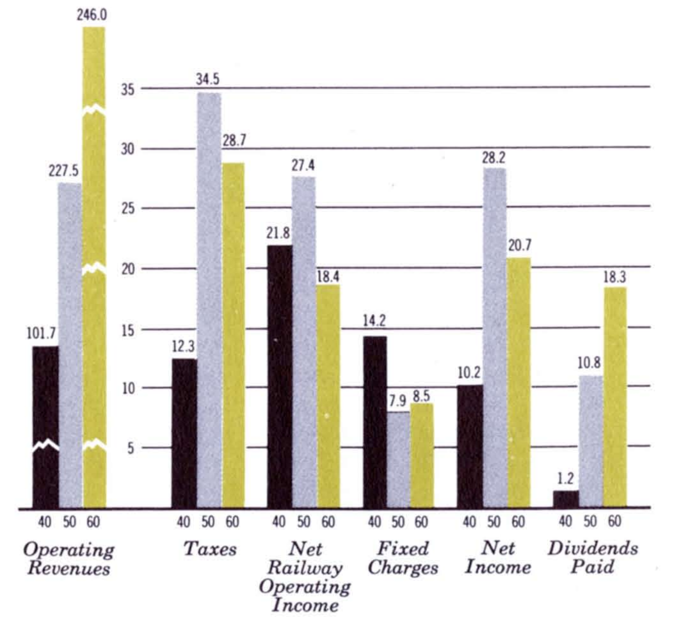
Prospects for railway operation in 1961 are somewhat uncertain. We anticipate a slow start with a pick-up in business during the third quarter. Public reaction to the policies of the new administration in Washington may change this pattern. At this time we expect 1961 to be a better year than 1960 for Great Northern if crop conditions are normal.

Exceptionally fine service has been rendered by our officers and employes during 1960, a year of unusual activity. The Board of Directors joins me in expressing our thanks and appreciation.

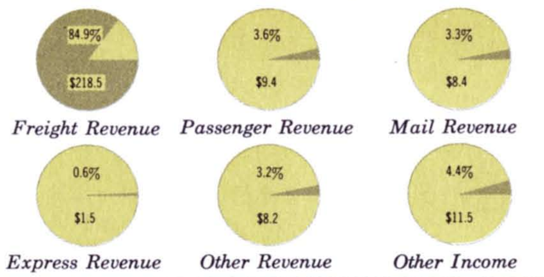
J M Budd

March 23, 1961 PRESIDENT

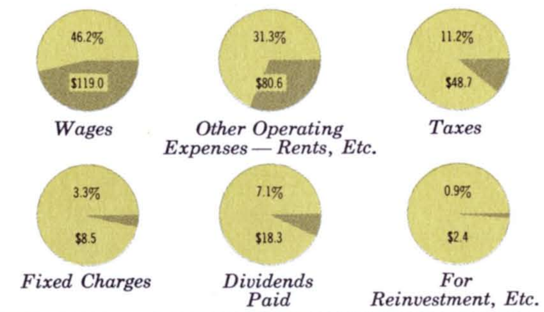
FINANCIAL RESULTS 1940-1950-1960
in Millions of Dollars



1960 INCOME *in Millions of Dollars* $265,892,491=100.00%



1960 OUTGO *in Millions of Dollars*



FINANCIAL REVIEW... 1960

High levels of industrial production were widely predicted at the outset of 1960, and this optimism seemed reasonable in view of the depressing effect of the long steel strike on the previous year's economy. However, the anticipated recovery did not materialize. Physical volume was up slightly from that of 1959, but revenues were lower. The year definitely was one of recession for Great Northern.

NET INCOME

When it became evident that movement of freight traffic would fall short of expectations, expenses were reduced to the extent possible, consistent with good service and proper upkeep of property. Net income for the year was $20.7 million, equal to $3.41 per share, as against a net of $26.6 million or $4.35 per share in 1959.

The net income of Great Northern does not include its equity in 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). During 1960 this equity amounted to $1.6 million or 26c per share of Great Northern stock.

The annual dividend of $3.00 per share was continued in 1960.

Operating revenues of $246.0 million were $8.5 million less than in 1959. As a result of continued increases in wage rates and material costs, operating expenses were only $3.1 million below the level of the previous year. Taxes in 1960 were $1.2 million less than in 1959.

Fixed charges were earned 3.44 times. The amount received as "Other Income," largely dividends and interest from investments, was at the highest level in recent years and exceeded fixed charges by nearly $3.0 million. Payment of the Series "R" mortgage bonds at maturity will reduce future fixed charges $375,000 annually based on the amount outstanding at the beginning of the year.

FINANCIAL POSITION AT END OF YEAR

After paying the January 1, 1961 bond interest and providing for payment of the $16.7 million of General Mortgage bonds which matured January 1, cash—including temporary investments—was $43.1 million compared with $61.5 million at the end of 1959.

Current assets were $101.8 million and current liabilities were $51.5 million. Net working capital, the excess of current assets over current liabilities, totaled $50.3 million compared with $69.1 million at the end of 1959. Much of the reduction in net working capital resulted from payment, out of cash resources, of mortgage debt due January 1, 1961, and from purchase of Western Pacific stock.

In the early part of 1960 the high level of interest rates on short-term Government securities permitted investment of surplus cash at attractive rates. For the year, interest income from temporary cash investments and certain miscellaneous funds, such as the insurance fund, amounted to $2,018,747, a portion of which was tax-exempt.

REPORT ON UNIFICATION

The year 1960 was one of substantial progress on the complex studies and negotiations pointing toward the merger of the Great Northern and Northern Pacific, together with the Chicago, Burlington & Quincy, the Spokane, Portland and Seattle and the Pacific Coast railways.

Of particular significance was the action on July 15 of the Boards of Directors of Great Northern and Northern Pacific, agreeing upon the basis of exchange of the stocks of the two companies. A detailed explanation of the basis of exchange is contained in the proxy statement which is being mailed to all stockholders.

The remainder of the year was busy with determination of the exact corporate form of the new company, planning for future financing and preparation of the application to the Interstate Commerce Commission for authority to proceed with the unification.

Approval of Great Northern's shareholders will be recommended at the annual meeting on May 11, 1961, and similar action will be taken at stockholder meetings of the other companies at about the same time.

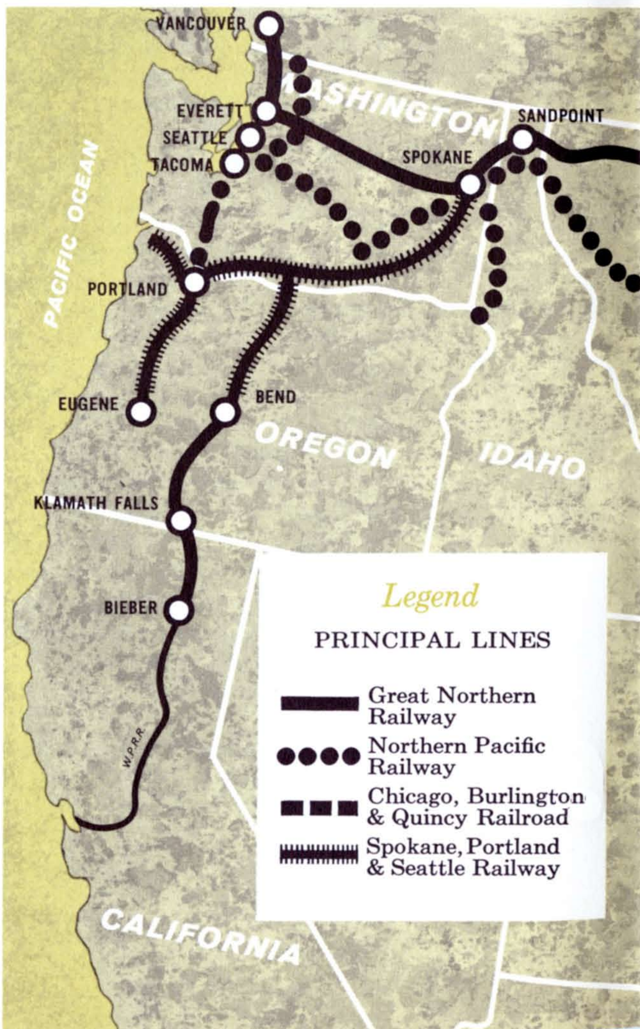
The consolidating companies already have many common interests and have worked together to improve their services. For many years Great Northern and Northern Pacific have had equal ownership of nearly 98% of the Burlington. These same railways built and own the SP&S. The Pacific Coast Railroad is a wholly-owned subsidiary of the Great Northern.

In the past two decades, the managements of these rail enterprises have watched other forms of transportation grow rapidly, eliminating the dominant position that rail carriers at one time may have had. These and other factors have encouraged the managements to seek every possible way to reduce unnecessary expenditures and to take full advantage of technological advances. In this process, the existence of costly duplicate facilities became increasingly apparent, as did the potential advantages of consolidated management and operation.

Strong impetus for action came from a study of the economics of such a merger, carried out under the direction of Wyer, Dick & Co., independent railroad consultants. Their report indicated that unification would enable the combined enterprise to provide better transportation service and would result in substantial economies and improved operation.

The accompanying map, showing principal routes of the consolidating companies, suggests the physical advantages of unification, which will combine the best features of each enterprise for faster and more dependable service at lower transportation expense. A combination of trackage of Great Northern and Northern Pacific will provide shorter distances and lower grades on principal traffic routes. At major terminal points the best facilities of each line will be used. The concentration of traffic through these facilities will justify construction of major modernization projects which would not be feasible for any one of the lines alone.

A more southerly transcontinental freight route, linking the Pacific Northwest with terminals in the lower Midwest, will utilize a combination of Northern Pacific and Burlington east of Spokane (via Billings), with Great Northern and SP&S to the west.

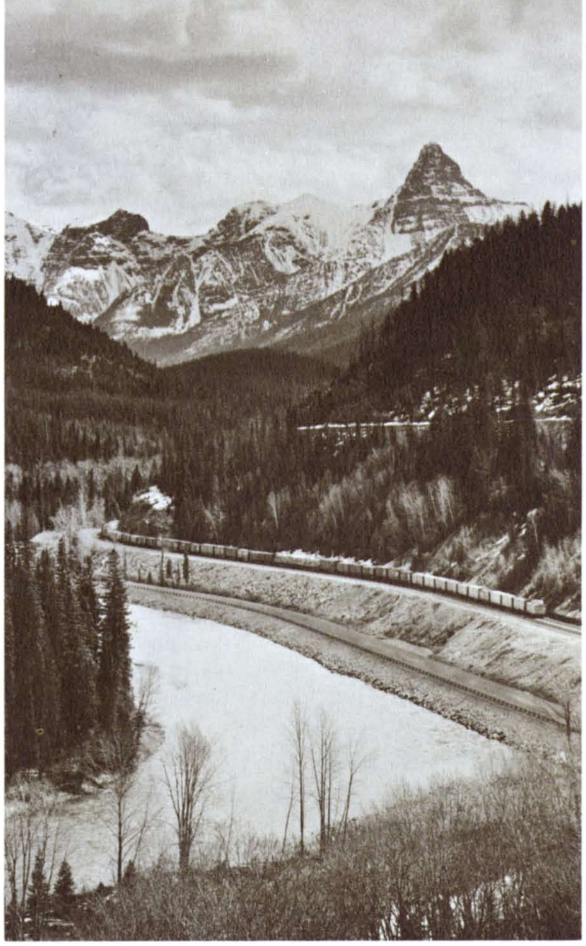


No immediate line abandonments are proposed, and only relatively minor removals of parallel and duplicate lines are expected in the future as a result of consolidation.

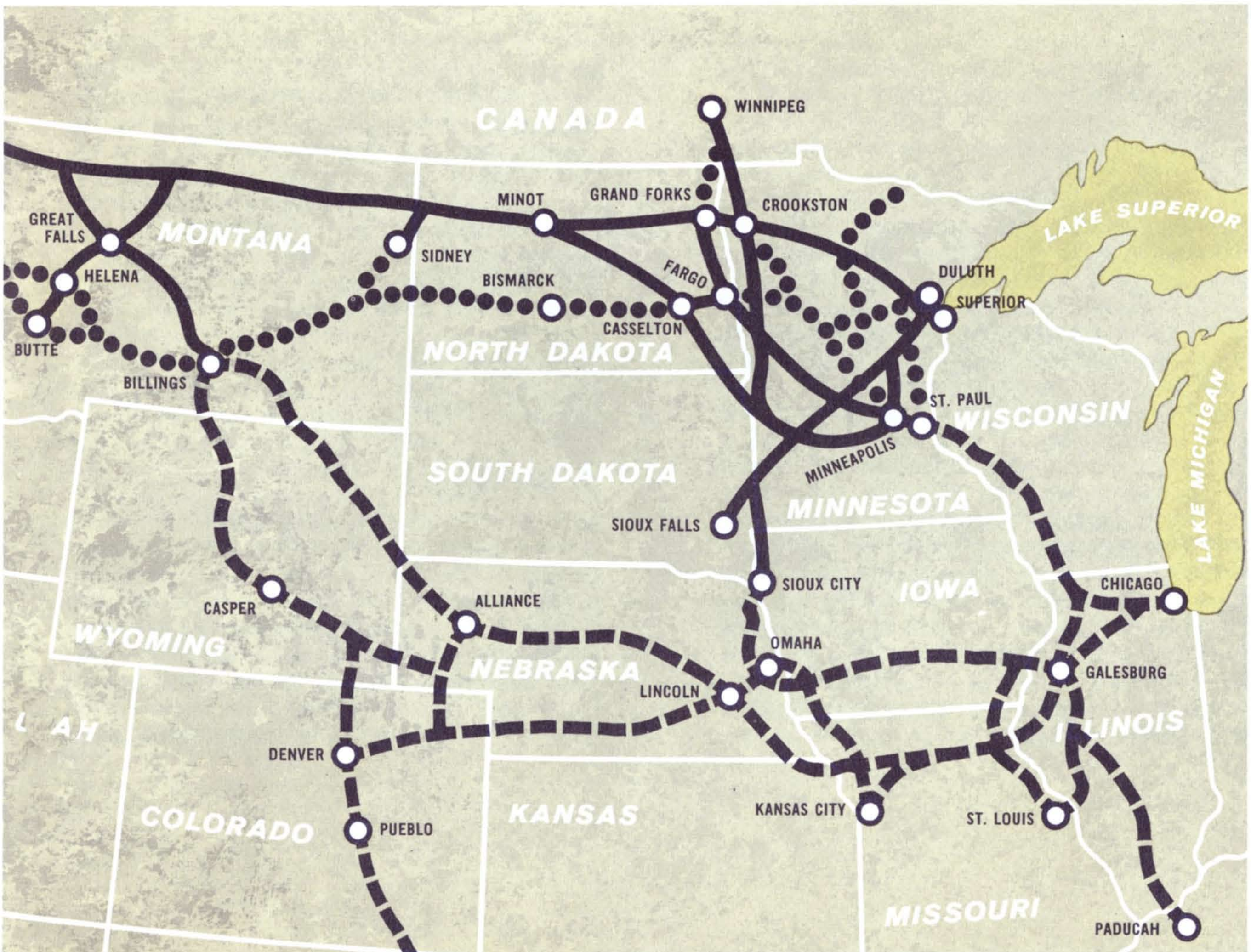
Future job opportunities for all employes now in service on the component lines are firmly assured by the plan of consolidation which, once approved, will require an estimated five years to complete.

By the end of the consolidation period the new company will be operating efficiently with about 8% fewer than the present 64,000 employes. However, the normal employment turnover of 6% on the four lines creates almost as many jobs in one year as will be vacated gradually over the five years of integration.

Further, all railroad employes are protected by generous provisions in agreements between the railroads and the labor organizations, as well as by specific provisions of the Interstate Commerce Act. These protective measures greatly minimize the possible adverse effect of merger on individuals and communities dependent on railroad employment.



Great Northern's route along river valleys, with easier grades and shorter mileage, provides a passage through the Rockies which will be of maximum value under consolidation.



Completed in eastern Washington in 1960 was a 24-mile relocation of the Wenatchee-Oroville branch line along the pool area of Rocky Reach Dam. Filling of the reservoir in late Spring of 1961 will inundate the old line.

REPORT ON OPERATIONS

Movement of freight traffic displayed an irregular course during 1960, and this was reflected in revenues. The year began at a low level, improved slightly for several months and then with the exception of a short peak at the grain harvesting season showed a generally lower trend for the remainder of the year.

Original programs for roadway and equipment maintenance were based on a level of traffic expected to be higher than in 1959. When it became apparent that revenues for the year would be substantially reduced, steps were taken to reduce maintenance work correspondingly. As a result the percentage of maintenance expenses to revenues was held at the same level as in 1959.

OPERATING REVENUES

The principal sources of operating revenues were:

Source of Revenue	Operating Revenues (Millions) 1960	1959	Per Cent Change
Freight	$218.5	$226.5	3.5-D
Passenger	9.4	10.0	6.7-D
Mail	8.4	8.6	1.5-D
Express	1.5	2.2	30.9-D
All other operating	8.2	7.3	12.7-I
Total	$246.0	$254.6	3.4-D

Freight Revenue

Since revenues derived from freight transportation comprise 89% of total operating revenues, the trend of general business activity shapes Great Northern's traffic volume. Ordinarily, the diversity of freight revenue sources protects against unusual declines, since a period of low activity in some fields is usually offset by improved activity in others. This diversity of revenue sources is shown by the following tables

Commodity	1960 Revenues (Millions)	1959 Revenues (Millions)	Per Cent Change
Grain and grain products	$56.8	$63.3	10.4-D
Lumber and wood products	37.9	42.2	10.2-D
Iron ore, including dock charges	23.2	14.1	64.4-I
Paper	13.1	13.2	0.7-D
Crude petroleum, petroleum products and asphalt	10.1	11.3	10.7-D
Forwarder traffic and less-than-carload traffic	10.2	10.6	3.0-D
Aluminum ore and products	6.4	7.0	8.7-D
Iron and steel products	5.5	5.3	3.4-I
Fresh apples	3.5	4.4	21.5-D

As seen in the table above, many segments of our traffic were affected unfavorably in 1960. The mild recession beginning in the Spring depressed shipments of manufactured goods. This in turn had its effect on the steel industry, resulting in sharply reduced shipments of iron ore after midyear. The rate of housing construction also dropped and with it the movement of lumber.

At the beginning of the year an estimated 243 million bushels of grain were in storage, awaiting movement from farms and country elevators in Great Northern territory. During the early months of the year this grain moved to market at about the 1959 rate. Thereafter for several months, until the new crop began to be harvested in the middle of August, grain loading was very light.

The 1960 crop in Great Northern territory, while about average in size, was disappointingly short of early season expectations when growing conditions were ideal. A short period of hot, dry weather in Montana and North Dakota greatly reduced yields. Car supply was adequate through most of the peak loading period and shortages were generally of short duration. During the week ending August 19 a total of 5,917 cars of grain were loaded—the largest number for a single week on Great Northern since 1930, when grain cars were considerably smaller.

On January 1, 1961 about 260 million bushels were in storage awaiting movement. This is substantially more than on the same date a year ago and has been exceeded only once before. Prospects for the 1961 crop are favorable, with soil moisture in most of the grain producing areas about normal.

With the opening of navigation on the Great Lakes, iron ore began moving at a satisfactory rate to the furnaces as steel mills replenished lowered stock piles resulting from the 1959 strike. But as it became apparent that there would not be a pickup in steel production in the Fall months, orders for iron ore were reduced. Beginning in July the rate of shipments declined from month to month, and when the season closed at an unusually early date in mid-November only 17 million tons had been moved. Except for 1959 this was the smallest tonnage shipped since the depression year of 1939. While the volume of iron ore was 41.5% of all tonnage loaded by Great Northern, its contribution to revenue was much smaller and amounted to only 8.1% of total operating revenues.

Freight Rates

During 1960 there was mounting necessity for a higher level of freight rates to meet the cost of wage increases effective May 1 and July 1, as the nation's railroads found that they no longer could increase operating efficiency to offset higher costs. On the other hand, competition from other forms of transportation ruled out any large increases in rates. Accordingly a very modest increase of about 1% was proposed and subsequently approved by the Interstate Commerce Commission, effective October 24, 1960. Great Northern's revenues are expected to increase about $2.5 millions annually as a result.

Railroad freight rates have been built up over a period of many years upon principles largely determined by the Interstate Commerce Commission and the corresponding state commissions—whose regulatory activity would seem to reflect a supposition that railroads continue to be completely dominant in inland transportation. This complicated pattern of freight rates has been subject to criticism. However, it is not practicable to revamp overnight a structure on which entire industries have been built, and progress toward change has been necessarily slow.

With an excess of transportation capacity available, the railroads are moving forward to obtain that traffic for which they have inherent advantages. For example, a loss to natural gas was averted when Great Northern joined in revolutionary new rail-lake-rail rates on coal from eastern mines to a Minnesota public utility. The rate is based on a minimum annual movement of 200,000 tons.

During the year substantial reductions were made in grain rates to the Twin Cities and Duluth-Superior areas, and similar reductions were made to the North Pacific Coast ports from

Washington, Idaho and Montana, to counter unregulated trucking. An important downward adjustment in cement rates was made in Minnesota and North Dakota. Other adjustments on such diverse products as potatoes, salt, lumber and sulphur will help meet transportation competition and also assist producers in our territory in meeting the market competition of other areas. All of these adjustments, while holding traffic to the rails, have reduced revenues.

Passenger Revenue

A trend of recent years continued as passenger revenue declined from $10.0 million in 1959 to $9.4 million in 1960. The reduction in revenues, coupled with ever-increasing costs, has led to intensive efforts to reduce the deficit resulting from passenger service. On May 22 far-reaching revisions were made in main line passenger service. The Western Star is now operated over the shortest main line route between St. Paul and Seattle, trimming approximately seven hours from previous schedules and eliminating one night en route in either direction between Chicago and Seattle. Service to Grand Forks, North Dakota and Great Falls, Montana, formerly provided by the through train, was continued by operating smaller streamlined trains to take the place of the Western Star service. A very substantial saving in car miles was accomplished.

Wenatchee Valley apples are loaded into one of 20 new super-insulated piggyback vans built for Western Fruit Express Company in 1960 and leased by Great Northern. These vans are used for movement of meat, apples and frozen foods.

Other changes in train service included a reduction from three to two round trips daily by the Internationals between Seattle and Vancouver, British Columbia, and the rerouting of the Winnipeg Limited through Fargo and Grand Forks, North Dakota. Although the changes were in effect for only part of the year, the saving over 1959 was 690,000 train miles or 12%.

To encourage passenger travel, Great Northern continues to maintain high standards of service while offering attractive economies. Coach class tickets are honored in Western Star sleeping cars except during the heavy vacation travel season, and simplified dining car meals are available at reduced prices. The quality and pricing of all dining car services continue to attract favorable comments.

It is regrettable that none of the steps recommended in 1958 by the Interstate Commerce Commission, after a thorough study of passenger problems, have been carried out. Even the partial step of reducing the excise tax on passenger fares from 10% to 5%, scheduled to become effective July 1, 1960, was postponed by Congress.

Mail and Express Revenues

Mail revenues for 1960 were $8.4 million, a decrease of $126,000 from 1959. The Post Office Department has been diverting mail traffic away from some train services, as well as reducing its use of en route sorting facilities on trains. This, together with a reduction in total mail volume, resulted in a revenue decrease—in spite of a 13% rate increase negotiated between the Post Office and the western railroads which became effective September 1.

Reorganization of Railway Express Agency operations continued during 1960. The Agency was subject to the same pressure from higher costs with lower traffic volume which affected other railroad business. As a result the net amount received by Great Northern after the Agency paid its expenses was $1.5 million, compared with $2.2 million in 1959.

OPERATING EXPENSES

Railway operating expenses in 1960 amounted to $194.1 million, down $3.1 million from 1959. The 1.6% decrease in expenses was somewhat less than the corresponding 3.4% decline in revenues. As a result the operating ratio—the proportion of operating revenue taken by operating expenses—was 78.9% in 1960, compared with 77.4% in 1959.

Transportation expenses, which include the cost of operating trains, stations and yards, were $90.6 million in 1960, almost the same as in 1959. These expenses were kept under control in spite of higher wage rates and a 1% increase in the physical volume of freight traffic moved. Holding the line on transportation expenses would not have been possible had not large expenditures been made in recent years for modernization of facilities and methods.

Maintenance of Way expenses of $40.2 million in 1959 were cut to $39.5 million in 1960. Acquisition of specialized machines in recent years has eliminated many man-hours of hard manual labor and permitted carrying out substantial programs of roadway maintenance at reduced expense. The forces now working are much smaller than those of earlier years, but they receive much higher pay for their more skilled work. The physical condition of Great Northern's roadway and structures is good and will not require unusual maintenance expense to handle greater traffic.

Maintenance of Equipment costs of $45.4 million in 1960 declined $2.2 million from those of 1959. Unserviceable units in the freight car fleet were held at a normal level. At the beginning of 1961 there were only 2.8% of Great Northern freight cars in need of heavy repairs, compared with the national average of 9.4%.

The overall ratio of maintenance expenses to operating revenues held steady at the same 34.5% in 1960 as in 1959. The transportation expense ratio increased from 35.5% in 1959 to 36.8% in 1960.

It is noteworthy that in spite of fluctuations in traffic volume and the necessity for maintaining the best possible service under competitive conditions, important indices of operating efficiency improved during 1960. Gross ton miles per train hour, which reflects loading of trains and their speed, stood at 64,808 in 1960. This was the highest ever recorded and compares with 45,682 only ten years ago. Two additional all-time records were established on Great Northern last year when average freight train speed reached 20.5 miles per hour and revenue net tons per train load rose to 1,428.

Rentals of Equipment

Payments for rental of freight cars increased substantially in 1960. This was partly due to higher mileage rates paid to private owners of tank and refrigerator cars. Additionally, with the nationwide slackening in freight traffic volume, Great Northern cars were in less demand by other railroads and therefore tended to return to home rails more promptly. Although Great Northern made net payments of $4.5 million in 1960, this was more than offset by car mileage revenues of the 5,823 refrigerator cars belonging to the wholly owned Western Fruit Express Company. These amounted to $5.8 million in 1960.

Taxes

Taxes are paid by Great Northern in three general categories. First are income taxes paid largely to the Federal Government. Property taxes are paid chiefly to the states for general upkeep of state and local governments, including schools. Payroll taxes, which presently amount to 8.2% of wages, go to the Federal Government for support of half of retirement benefits and all of unemployment and sickness benefits paid in a special system to railroad employes.

Reflecting the lower net income earned in 1960, accruals for Federal income taxes were somewhat lower than in 1959. Property taxes were slightly higher than in the prior year, while payroll taxes increased considerably, although both the number of employes and total wages were lower. The higher taxes on payrolls resulted from a full year's application of the higher rates voted by Congress in 1959 to finance larger benefits.

Wage Rates

During the year all employes working under labor union agreements received a 1c per hour cost-of-living wage increase. The wage contracts which had been in effect since November 1, 1956 were open for changes on November 1, 1959, and negotiations which had been in progress since that time were settled during the Summer with all crafts except the switchmen, prescribing wage rates until November 1, 1961. In general the settlement provided for an increase equivalent to 11c per hour, half effective July 1, 1960 and the remaining half March 1, 1961. The non-operating employes elected to take the March, 1961 increase through improved insurance coverage. The cost-of-living increases which became effective in the 1957-1960 period were added to the basic rates and no further cost-of-living increases will be made. The estimated cost of the increases would be $4.3 million annually if employment were held at the levels of mid-1960.

The average wage per hour worked in 1960 was $2.80, compared with $2.73 per hour in 1959. Including fringe benefits such as pensions, unemployment insurance and health and welfare insurance, amounting to 54c per hour, the total cost per hour for each man-hour worked was $3.45. This compared with $3.36 per hour in 1959.

IMPROVEMENTS IN FACILITIES

Capital expenditures for 1960 were budgeted with a view of carrying out long-range plans for improvements and replacements of facilities. These improvements are required both to attract new business and to increase operating efficiency, thereby reducing costs so that we can remain competitive with other forms of transport. The year's program was carried out substantially as planned. Some work budgeted in 1959 was carried over to completion in 1960.

Additions and betterments totaled $24.6 million, which included $7.6 million for roadway and structures and $17.0 million for equipment. This compares with $20.4 million in 1959 and the five-year (1956-1960) average of $24.6 million. In planning for the current year, special emphasis is being given to improvements which will be of most value after consolidation.

EQUIPMENT PROGRAM

Great Northern's 1960 equipment program included construction of 500 box cars and 20 flat cars with special bulkheads at the railway's St. Cloud, Minnesota shops. An additional 505 freight cars were purchased from outside car builders.

The box cars built in company shops and 250 of those purchased were equipped with "plug" doors, a feature which has made these versatile cars increasingly popular with GN shippers. One of two doors on each side can be tightly secured for loading of bulk commodities like grain. Used as a double door car, the wide opening facilitates mechanical loading of such commodities as plywood and lumber.

A number of specialized items of equipment were acquired to meet the specialized needs of shippers, thus making rail service more attractive to them by reducing their overall costs of transportation. Included were 95 covered hopper cars, of which 20 were equipped with airslide attachments for handling bulk flour and sugar. Twenty-five gondolas were equipped with removable steel roofs and high capacity trucks for weather-protected handling of tin plate in coils. The subsidiary Western Fruit Express Company acquired 200 insulated box cars for transporting canned goods and other commodities which require weather protection but not refrigeration.

For the expanding needs of piggyback service, 35 long flat cars were acquired, each capable of carrying two full size highway trailers. Additionally, 53 existing flat cars were equipped for high-speed piggybacking with the installation of improved trailer hitches and roller bearings. To provide the necessary trailers, 148 new units of this type were acquired, 20 of them mechanically refrigerated for handling perishables. Indicating the rapid expansion of TOFC (trailer-on-flat-car) business is the fact that at the end of 1960 approximately 45% of Great Northern's piggyback trailers were less than one year old.

The equipment program for 1961 includes capital expenditures of $14.8 million. The principal item is $9.0 million for new freight cars, including 550 box cars and 100 cars of other types.

Although no purchases of new diesel locomotives are planned, 18 older 1350 HP freight units will be upgraded to 2000 HP general purpose units. Great Northern purchased 96 units in the years 1943-45, during the early stages of its dieselization program. While they are still giving good service, it is desirable to upgrade them to modern units of greater capacity and with latest design improvements. In recent years a number of these locomotives have been rebuilt into 2000 HP units, three of which can handle a freight train of equal size considerably better than four of the original units. Upgrading scheduled in 1961 will leave only 35 of the older units to be modernized in order to complete this program.

These big production tampers, equipped with automatic push-button control, brought new levels of speed and efficiency to ballast compacting in 1960. Greater uniformity is achieved through a squeeze and electric vibratory method of tamping.

FIXED PROPERTY IMPROVEMENTS

As in the previous year, the largest single expenditure for property improvement in 1960 was made on continued expansion of centralized traffic control, by which train movements are remotely directed over an increasing mileage on Great Northern's main line. Most important of these projects last year was the completion of 200 miles of CTC between Bainville and Dodson in eastern Montana. The central portion of GN's main line between Minot, North Dakota and Havre, Montana—a 441-mile stretch on which there is relatively high traffic density—is now entirely equipped with CTC except for a few short segments of double track. Great Northern now has a total of 763 miles of line on which the signals and switches are remotely controlled by the train dispatcher or operator through electronic means.

The 1961 program includes a 109-mile extension of CTC in the area where traffic density will be increased sharply as a result of unification.

Maintenance of track, buildings and other fixed property continued in accordance with long-range plans for replacement of lighter rail, application of crushed rock ballast on main lines, improvement of drainage structures and replacement of timber bridges with more permanent materials. Substantial economies in future maintenance will be effected.

On 73 miles of main line new 115-pound rail was laid, much of it continuously welded in quarter-mile-long strings. The greater availability of good secondhand rail released from unneeded track as a result of CTC work permitted a larger than usual program of replacing lightweight and worn rail on secondary main and branch lines. A total of 156 miles was relaid with secondhand rail.

New crushed rock ballast was applied in completely overhauling 180 miles of track. The development and acquisition of special mechanized equipment in recent years have made possible economical smoothing of many miles of line not requiring complete overhaul. This work would have been prohibitively expensive with the hand methods formerly used. Altogether a total of 516,000 yards of ballast was applied during 1960.

The 1961 capital expenditure budget for fixed property provides for work estimated at $7.4 million, with emphasis on projects which will be of maximum benefit where traffic volume will increase as a result of unification. Besides the extension of CTC, a major line change on the west slope of the Cascades between Index and Gold Bar, Washington will be started. In a distance of three miles a series of sharp curves will be straightened, permitting higher train speeds and lowering track maintenance costs. The usual program of track improvement will include laying of 86 miles of new rail, 130 miles of secondhand rail and application of 540,000 cubic yards of ballast.

Centralized traffic control on nearly 100 miles of GN's Mesabi Iron Range lines has brought greater flexibility in handling of heavy ore trains. Current program was completed in 1960 when 48.5 miles of CTC went into service.

Heavy repairs on 301 older box cars were completed during 1960 at GN's St. Cloud shops. New stenciling on the rebuilt cars featured the first life-size appearance of "Rocky," the railway's famous trade mark goat.

SERVICE IMPROVEMENTS AND TRAFFIC DEVELOPMENT

GROWTH OF PIGGYBACK SERVICE

Piggyback continues to be one of the most talked-about developments in railroading, and the growing importance of the movement of highway trailers on flat cars is seen in Great Northern traffic statistics for 1960. The number of trailers loaded and received from connecting lines increased 52% over the previous year—more than double the gain from 1958 to 1959. The tonnage increase of piggyback business in 1960 was 83%, while revenues were up 107%.

Expansion of piggybacking in 1960 included establishment of two new overnight services in Minnesota, one between the Twin Cities and Grand Rapids and the other between the Twin Cities and Hibbing-Chisholm.

Most stimulating development of the year was the solid comeback by the railroads in the hauling of new automobiles, both by piggyback and multi-level auto rack. Railroads now offer cost and service advantages which are enabling them to reclaim an increasing percentage of the new auto business which had been lost to highway carriers in recent years.

The handling of auto transport trailers on flat cars began on Great Northern in mid-1959 with participation in a pool service between California assembly plants and key unloading points in the Pacific Northwest. This type of piggyback operation was expanded in 1960 to include movements from eastern and midwestern auto plants to Pacific Northwest destinations. Newest development in hauling autos by rail is the multi-level rack. Great Northern took delivery on its first equipment of this type—16 bi-level rack cars and 50 tri-level rack cars—late in the year.

To further meet the urgent need for specialized piggyback equipment, Great Northern at mid-year joined the Trailer Train Company, a railway-owned agency operating the largest fleet of piggyback flat cars in the country. As a proprietary owner, together with a large number of other principal railroads, Great Northern is able to draw on a pool of more than 6,000 piggyback flat cars.

CENTRAL CAR BUREAU

The development and increased utilization of new electronic tools continue to spur progress on Great Northern. An outstanding example in 1960 was the establishment at the railway's headquarters of the Central Car Bureau, a completely mechanized center for the collection and distribution of all essential data pertaining to the movement of freight cars on the railway.

This car reporting system embraces daily use of Great Northern's Univac and involves monthly transmission of information from over 300,000 punch cards to the Central Car Bureau from mechanized yard offices. Much of this card information is immediately transmitted to 24 traffic agencies located across the United States and directly linked with the bureau by means of leased teletype circuits. As a result, Great Northern customers are receiving much speedier service on vital information pertaining to shipments moving on the GN system. The Central Car Bureau additionally has benefited the Accounting Department and has done much to give the Transportation Department internal car controls necessary to keep up with the accelerated pace of modern transportation.

RESEARCH AND DEVELOPMENT

The "marriage" of two great mineral resources on the threshold of development in GN territory moved a step closer to reality in 1960 as important progress was made in research projects sponsored by the railway and supervised by its Mineral Research and Development Department.

At the University of North Dakota, a project on the utilization of lignite brought development of a gasifier which may be patentable and which now has been incorporated in a pilot plant operation at the University of Minnesota Mines Experiment Station, where research is being conducted on the processing of nonmagnetic taconite iron ore.

While it is too early for conclusive results, it is hoped that further research may prove the feasibility of using lignite as a fuel in a roasting process leading to separation of nonmagnetic iron ore particles from foreign materials.

The growing importance of magnetic taconite (now in substantial production on the eastern Mesabi) to the long-range future of iron ore production in Minnesota has been accelerated y demands of the steel industry for ores of the quality and physical structure obtained by beneficiating this raw material.

Development of an economical beneficiating process for the non-magnetic ores, which additionally would utilize lignite, would have exciting significance for Great Northern as well as for the states of Minnesota and North Dakota. Deposits of non-magnetic and mixed taconites are found in vast quantities on the western part of the Mesabi Range in the area served by the railway. In North Dakota, lignite deposits estimated at 350 billion tons represent one-sixth of the nation's reserves of solid fuel. A large share of this lignite is in the northwestern part of the state, also served by Great Northern.

Important independent research on the non-magnetic ores is being carried on by the iron mining companies, as well as by the University of Minnesota. The Great Northern-sponsored projects are providing valuable additional data which is being made available to the mining companies, thus furthering the potential development of natural resources in the railway's territory.

Two major companies constructed their own semi-taconite pilot plants during the year. The installation of the M. A. Hanna Company on Great Northern trackage at Cooley, Minnesota will be completed and operative in early 1961. A few initial runs were made at the new Trout Lake plant of the Oliver Iron Mining Division of U.S. Steel, and operation will be resumed in the Spring. The future of commercial production will depend on many factors, including a favorable tax climate in Minnesota.

In another phase of mineral research and development, Great Northern geologists late in 1960 completed field work in a three-year resource study along the Great Falls-Billings line. During the year 2,100 square miles were mapped, and samples of clay, coal, gypsum, shale and limestone were collected and analyzed. Copies of preliminary reports covering the first and second years' work have been distributed to industry.

Because of growing markets for certain deposits indicated in central Oregon, field work for the 1961 season will be shifted to that area.

INDUSTRIAL EXPANSION

In contrast to general economic conditions, industrial expansion during 1960 was at the highest level in three years, with 150 new industries located on Great Northern trackage. Substantial additions were made to many existing installations. Attracting new business to Great Northern territory is an important and productive activity of the Traffic Department and its industrial and agricultural development specialists.

New cars from Ford Motor Company's St. Paul assembly plant are driven up a loading ramp to the top deck of a Great Northern tri-level auto rack. Each rack carries 12 standard or 15 compact autos.

Increased product diversification in the processing of potatoes continues to stimulate new local industry while widening the market for the immense Red River Valley potato crop. With the growth of chipping, many potato warehouses are installing conditioning equipment to treat potatoes for that use. On the immediate horizon is frozen potato processing. Interestingly, the first such production, scheduled to begin early in 1961, will take place in Great Northern's former roundhouse at Crookston, Minnesota, sold last year and remodeled for processing of frozen potato products.

First shipments of iron ore concentrates were made during the year from the newly-developed Lind-Greenway mine near Coleraine, Minnesota and the Pierce group at Hibbing. These conventional open pit mines have the latest types of beneficiating plants for producing concentrates of desirable characteristics from ore which otherwise would be unmarketable.

An industrial development of unusual significance to the Williston Basin was the opening last October of Dakota Salt and Chemical Company's $2,000,000 high purity salt plant, just east of Williston. Investigative and research work by Great Northern geologists played an important role in the establishment of this industry.

Salt from the new plant is mined hydraulically: water is injected into the salt strata, more than 8,000 feet underground, and the brine which rises out of the well is then pumped into vacuum evaporators. Capacity of the plant is 300 tons of salt per day. Cavities created by the mining are used for the storage of liquefied propane and butane gas during summer months when demand for these fuels is low.

But beyond its current importance to the economy of the area, the new salt plant enhances the prospects of an industrial complex, or group of interrelated industries, in the Williston Basin. The Williston-Tioga area had been likened to a "sleeping giant" being especially endowed with an abundance of high quality raw materials—including water, fuels and minerals—which could provide a basis for substantial chemical and metallurgical industries.

A new industry centering in Culbertson, Montana and now in its second full year of operation had encouraging growth in 1960. The industry is founded on safflower, a seed crop grown in northeastern Montana and western North Dakota and yielding oil used in paint and varnish. Meal for livestock feed supplement is a valuable by-product. The first processing mill on GN lines, opened at Culbertson in late 1959, expanded its seed and oil storage facilities last year as safflower acreage was increased.

Diversification is broadening the use of important forest resources in northwestern Montana. Development of a plywood industry moved ahead in 1960 with construction by the C&C Plywood Company of a new plant at Kalispell. Its annual capacity is 48 million square feet. Meanwhile, the J. Neils Lumber Company, a division of the St. Regis Paper Co., announced plans for construction of a plywood plant at Libby with an annual capacity of 60 million square feet.

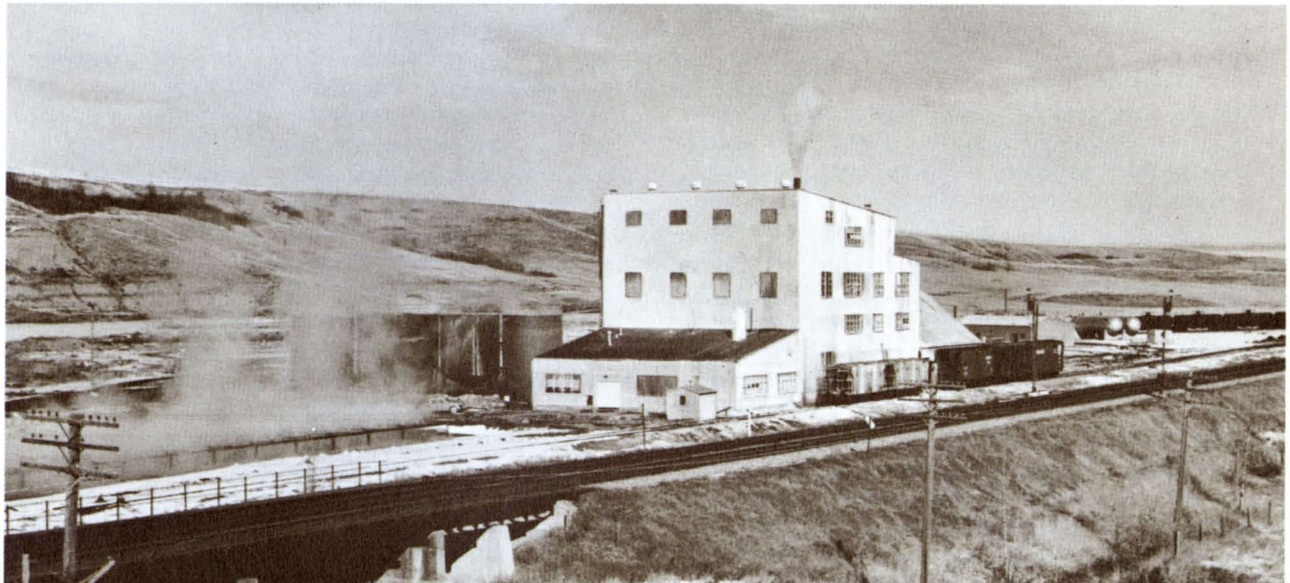
The Hillyard area of Spokane, Washington began its emergence in 1960 as an important regional distribution center for wholesale groceries. U.R.M. Stores last year completed construction of a $1,750,000 warehouse there, while Safeway Stores announced plans to proceed with a similar facility.

Industrial expansion on the Pacific north coast during 1960 included two new petro-chemical plants. To serve the Dow Chemical Company phenol plant being built on Tilbury Island near Vancouver, British Columbia, Great Northern began construction jointly with Canadian National of a six-mile spur which will open a large new area of industrial development in this rapidly growing area. Tilbury Island is advantageously situated on deep water in the Fraser River.

The second petro-chemical plant was completed during the year at Anacortes, Washington by the Northwest Petrochemical Corporation. Production of chemicals from by-products of oil refineries is assuming growing importance in Great Northern territory.

Progress in the forest products industry in western Washington last year saw the Pacific Wood Products Company constructing a veneer

High purity salt for commercial, industrial and agricultural use is shipped from this new plant near Williston. Caverns created by hydraulic mining provide off-season storage for liquefied petroleum gas, moved to market by rail tank car.



plant at Everett, while the St. Regis Paper Company neared the completion of its $30 million expansion program at Tacoma.

POWER AND IRRIGATION PROJECTS

Substantial progress was achieved during 1960 on several massive hydro-electric projects which will have long-range benefits on industrial development in Great Northern territory.

Two Columbia River dams reached advanced stages of construction, while initial work was begun on a third. Priest Rapids, below Wenatchee, Washington, is scheduled for completion by May, 1961. Rated capacity is 788,500 kilowatts. Rocky Reach, a short distance above Wenatchee, is 86% complete and will produce 775,000 kilowatts when finished in 1962. Wanapum Dam, the newest project, was ahead of schedule in its first year and is approximately 29% complete. Located above Priest Rapids, its announced capacity is 831,250 kilowatts.

Construction of a second power plant, with a capacity of 165,000 kilowatts, reached the final phase of construction at Fort Peck Dam, near the North Dakota border in northeastern Montana. This project will be completed in 1961.

Basic agreement last October by the International Joint Commission on the utilization of Columbia River waters stimulated renewed planning of Libby Dam on the Kootenai River, a Columbia tributary in northwestern Montana. The agreement must be ratified by the Canadian Parliament and U.S. Congress. In addition to being an important hydro-electric producer in its own right, Libby would provide water storage to boost the output of downriver dams on the Columbia. Building of this dam would necessitate extensive relocation of Great Northern's main line.

An irrigation and flood control project of great potential importance in GN territory moved closer to realization as progress was made on investigation and feasibility studies of the Garrison Diversion Unit of the Missouri River Basin Project. Originally authorized by Congress in 1944, a shift in affected acreage required reauthorization, which is anticipated in 1961. More than half a million irrigable acres under the project will be served by Great Northern in northwestern North Dakota and northeastern Montana.

Additional blocks of irrigable land in the Columbia Basin in eastern Washington were brought under irrigation in 1960. Continuing diversification of agricultural production in this project has benefited the economy of the area and aided Great Northern.

FINANCIAL AND CORPORATE

CAPITAL STOCK

On the last record date in November, Great Northern was owned by 41,435 stockholders, 1,881 more than in 1959. Shares outstanding in the hands of the public at the end of 1960 totaled 6,079,662. The continued trend toward wider ownership, noticeable in recent years, was further increased by facilitating employe purchase of the company's stock. Under an arrangement made with a brokerage firm, employes are now able to acquire stock by payroll deduction through the Monthly Investment Plan of the New York Stock Exchange.

FUNDED DEBT

Funds were set aside at the end of the year to provide for the maturity of the Series "R" mortgage bonds on January 1, 1961. Not including these bonds, funded debt at the end of 1960 was $246.0 million, compared with $262.1 million at the end of 1959—a decrease of $16.1 million. Of the total outstanding debt, $8.6 million are equipment obligations due in 1961.

As of December 31	*General Mortgage Bonds (Millions)*	*Equipment Obligations (Millions)*	*Total Funded Debt (Millions)*
1960	$178.7	$67.3	$246.0
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

The Series "R" mortgage bonds which were paid at maturity were originally sold in 1946 in the amount of $25 million. In recent years the issue had been reduced to $16.7 million by open market purchases. Funds for the remainder were obtained from a reserve fund amounting to $8.2 million set up for debt retirement, and from $8.5 million of corporate cash.

Two issues of equipment trust certificates, totaling $8,880,000, were sold early in the year to finance new equipment. The certificates were issued at interest costs of 4.95% to 5.08% to maturity. Nearly offsetting the new trusts sold during 1960 was payment of $8.3 million for certificates which matured during the year.

In 1960 depreciation charges (included in maintenance expenses) provided more than sufficient cash to pay the annual principal payments

Crude oil from the Newburg and Glenburn fields of North Dakota now moves by Great Northern pipeline to this new 40-car loading facility at Minot, then by rail tank car to midwest refineries.

on existing equipment trusts and to make the 20% down payments on new equipment acquired during the year.

1960		
Depreciation Charges		$14,615,584
Cash Down Payments on New Equipment (20% of cost)	$2,260,692	
Principal Payments on Equipment Trusts	8,257,318	
Total Payments		10,518,010
Excess of Depreciation over Payments		$4,097,574

EFFECT OF TAX LAWS ON NET INCOME

Federal income tax laws permit rapid amortization of investment in certain facilities declared essential for national defense in the period during and after the Korean War. In addition, the Federal tax laws permit accelerated depreciation of facilities acquired after January 1, 1954. However, the Interstate Commerce Commission requires that depreciation be recorded in our income account on a straight-line basis, with the result that book depreciation is lower than tax depreciation in the earlier years of the facilities and higher in later years.

Depreciation for tax purposes in 1960 was $5.3 million in excess of that shown in the income account. This resulted in a postponement of income taxes and increase in net income reported of $2.8 million, as indicated in the following table:

	Defense Facilities Being Amortized	*Facilities with Accelerated Depreciation*
Amortization or depreciation estimated for tax return—1960	$5,225,000	$6,000,000
Normal straight line depreciation as reported—1960	2,580,000	3,300,000
Excess—1960	2,645,000	2,700,000
Increase in net income —1960	1,375,000	1,400,000

Benefits from the excess of tax amortization of defense facilities over book depreciation reached a high point in 1956 and will affect net income unfavorably in 1963, and for a number of years thereafter, to the extent of about 22 cents per share annually. However, the tax benefit from accelerated depreciation of new facilities will continue to increase for several years. It is anticipated, therefore, that the net effect of tax amortization and accelerated depreciation on reported income will be favorable for some years, although to a lesser extent than in the past, as shown in the following table:

	Effect of Amortization of Defense Facilities on Net Income	*Effect of Accelerated Depreciation on Net Income*	*Combined Effect on Net Income*
Year	*Increase Per Share*	*Increase Per Share*	*Increase Per Share*
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........	0.36	0.19	0.55
1960 (est.)..	0.23	0.23	0.46
1961 (est.)..	0.08	0.27	0.35

AFFILIATES AND SUBSIDIARIES

Great Northern in 1960 received $6.2 million in dividends from the Chicago, Burlington & Quincy Railroad Company, the same as in 1959. Of its outstanding capital stock 97.2% is owned in equal proportion by Great Northern and Northern Pacific. Burlington's earnings were also affected by the downturn in traffic volume and net income declined to $12.5 million, considerably below the 1959 level of $17.7 million.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, is heavily dependent on movement of forest products from the great lumber producing areas of Oregon. With demand for lumber reduced and other traffic also moving in less volume, net income declined from $2.6 million in 1959 to $0.7 million in 1960. Great Northern received $1.1 million in mortgage bond interest from the SP&S during the year.

The Western Fruit Express Company, a Great Northern wholly-owned subsidiary owning and operating a fleet of refrigerator cars, had a successful year as car mileage revenues increased and maintenance expenses declined. Net income of $1.2 million was substantially higher than the $576,164 earned in 1959. Great Northern received $17,223 in interest and an additional $1,350,000 which completed repayment of an advance made a number of years ago to finance car construction. During 1960 Western Fruit Express Company acquired 200 new insulated box cars, while 100 new mechanically refrigerated cars have been authorized for construction early in 1961.

Glacier Park Company, wholly-owned subsidiary of Great Northern, has conducted a number of miscellaneous activities including ownership of the hotels and motels in Glacier and Waterton Lakes National Parks. This interest dates back almost fifty years to the establishment of Glacier Park. Although the number of visitors arriving by train has remained quite stable in recent years and contributes substantial passenger revenue during the summer months, it was concluded that the hotel operation should be both owned and operated by an experienced resort hotel operator. Accordingly, the properties were sold on December 31, 1960 to a new company, Glacier Park, Inc., owned by Mr. Don Hummel and Associates of Tucson, Arizona. Great Northern will continue its friendly interest in Glacier Park activities and will operate passenger service as in the past to the Park entrances.

During 1960 the house count at the hotel facilities increased 2% and gross revenues 4%, with a substantial increase in operating profit. A memorable event was the 52nd Annual Governors' Conference held at Many Glacier Hotel in June. This meeting was attended by governors or their representatives from all fifty of the states.

Late in 1960 and early in 1961 the Glacier Park Company acquired 175,000 shares of stock in the Western Pacific Railroad Company. This railroad connects with Great Northern at Bieber, California and forms an important part of the north-south "Inside Gateway" between California and the Pacific Northwest.

Other divisions of the Glacier Park Company which manage timber lands, operate a tie treating plant and hold lands for future oil and gas and industrial development continued their usual activities. A gas pipeline is now under construction which will serve the Waterton Lakes field in southern Alberta, Canada. It is hoped that drilling activity may come in 1961 on the 8,700 acres owned by the company in this area.

Great Northern Pipe Line Company was organized during 1960 as a wholly-owned subsidiary to build a 50 mile crude oil pipeline from the Newburg, Wiley and Glenburn fields of North Dakota to tank car loading facilities at Minot, North Dakota. The line was completed in mid-December and movement of crude oil to date has substantially exceeded original forecasts. The pipeline provides more economical transportation for producers, concentrating at one loading facility on the main line the crude oil which formerly was loaded at a number of places on several branch lines.

LEGISLATION

The year 1960 was one of study rather than action with regard to legislation. The group headed by Major General John P. Doyle, Ret. and established by the Senate Committee on

Interstate and Foreign Commerce to study transportation problems completed a draft report on its work at the close of the year. James P. Landis, a presidential advisor, also made a report concerning the operation of Federal regulatory agencies. These two reports contain much that is constructive as well as many proposals that will require careful analysis. Each report recommends some radical changes in the government regulatory establishment.

Vitally needed legislation has again been introduced in the Congress which would establish realistic policies governing depreciation of railroad plant and equipment, impose adequate charges for the use of publicly provided facilities and modify 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 legislation.

Mention was made in the 1959 report of the amendment by the North Dakota Legislature of a 1919 law, so as to permit railroads to reduce from three to two the number of brakemen required on certain freight trains. The effective date was deferred pending a referendum at the November 1960 election, at which voters sustained the amendment by a three to two margin. Elimination of the surplus third brakeman will be carried out over a period of several years, with eventual anticipated savings to Great Northern of $500,000 annually.

LITIGATION

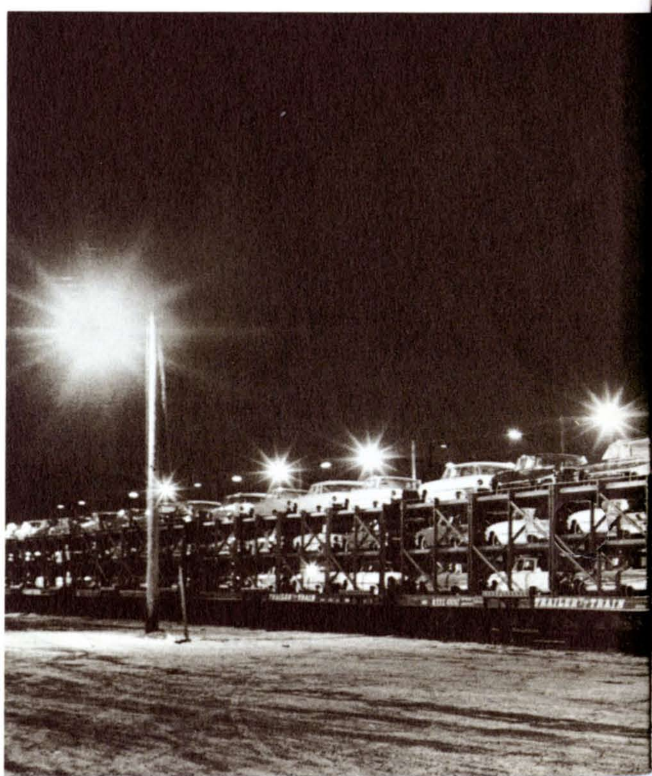
In the 1959 and earlier reports, mention was made of the Spokane Gateway case, the Divisions cases, the Grain case, the Riss case, and antitrust cases brought by the non-scheduled airlines. Also mentioned was an action commenced against 45 railroads, alleging that these railroads maliciously opposed a motor carrier transaction.

In the motor carrier action, the Court of Appeals affirmed the decision of the lower court in favor of the railroads. The antitrust cases brought by the non-scheduled airlines have been settled at nominal cost. In the Riss antitrust case, a jury returned a verdict against certain of the defendants but in favor of others, including the Great Northern.

No proposed report by the Commission's examiner has yet been made in the Grain case, brought by southeastern interests for changes in the grain rate structure. This has now been consolidated with other cases involving grain rates. In the Spokane Gateway case, involving an attempt by the Milwaukee Road to secure a larger share of traffic to and from the Spokane, Portland and Seattle Railway, the Federal District Court has sustained the decision of the Interstate Commerce Commission favorable to the Great Northern. The Milwaukee Road has appealed to the United States Supreme Court.

The hearing officers of the Interstate Commerce Commission, on December 6, 1960, recommended a proposed report in the Transcontinental Divisions case. If finally adopted by the Commission and made effective, this will increase for the future the divisions of the eastern and midwestern lines and reduce the divisions of the western lines, including Great Northern, on revenues from transcontinental traffic. After briefs and oral argument, the report will be submitted to the Commission for review and decision. In a companion case involving a dispute about divisions between eastern roads and midwestern roads (including Great Northern on some traffic) the hearing officers have not yet reported.

In October, the Southern Pacific Company applied to the Interstate Commerce Commission for authority to acquire control of Western Pacific Railroad Company through an exchange of stock. This application was followed almost immediately by a similar application on the part of the Santa Fe Railroad. Because of the importance to Great Northern of the continued maintenance and development of its Bieber route between California and the Pacific Northwest, Great Northern has intervened in the proceedings in support of the Santa Fe application and in opposition to that of the Southern Pacific.



PERSONNEL

A great deal has been written about the productivity of labor in recent years. In so far as Great Northern is concerned, the investment of millions of dollars in improved equipment and facilities has produced very large increases in efficiency of operation. Productivity in terms of man-hours has improved substantially. However, productivity in terms of traffic units produced per dollar of wages paid has declined, particularly in the period since 1955. This is one aspect of the cost-price squeeze which has affected Great Northern's net income in recent years. There is hope, however, in the fact that productivity in terms of work done for wages paid seems to have hit bottom in 1958, with slight improvement since that time. Possibly the thorough study of working rules to be made in 1961 may eventually lead to recovery to former levels.

EMPLOYE RELATIONS

At the conclusion of the moratorium on changes in working rules contained in agreements which expired November 1, 1959, negotiations to revise the rules began. Proposals of both management and labor were involved and little progress was made until late 1960. Management's proposals were designed to promote more efficient operation by changing some of the restrictive and obsolete working rules under which operating employes work. Finally on November 1, with concurrence of both management and labor, President Eisenhower by executive order established a Presidential Commission to study the dispute. The Commission will endeavor to make its final report by December 1, 1961. The report to the President will include both findings and recommendations with respect to the controversy. While these are not binding on either party a complete study will be made and it is anticipated that the work of the Commission will have great weight in reaching a settlement.

The Presidential Commission is composed of fifteen members, five of whom were nominated by the carriers, five from the employe organizations and five including the chairman were chosen by the President independently. Great Northern was honored by the selection of Mr. T. A. Jerrow, Vice President-Operations, as one of the carrier members. He will be on leave of absence during the period of his service on the Commission.

Great Northern continued its scholarship program for sons of railway employes by awarding four-year grants to Charles Reamer of St. Paul, Minnesota who is attending the University of Minnesota; Alvin J. Geske of Whitefish, Montana who is attending Southern Methodist University; and David F. Hatler of Great Falls, Montana who is attending the University of Alaska.

Employes of the Dining Car Department are justifiably proud of winning for the third successive year a special citation of the United States Public Health Service for excellence in sanitation aboard dining cars.

Multi-level auto racks brought an impressive and significant "new look" to Great Northern freight trains in 1960. Seen here, loaded three tiers high, is a single shipment of 60 new automobiles.

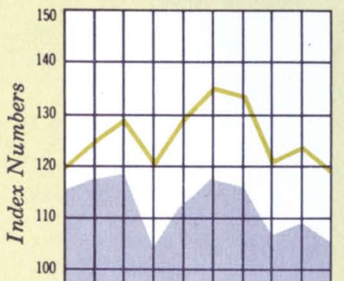
GREAT NORTHERN RAILWAY COMPANY

Changes in Working Capital, January 1 to December 31, 1960

BALANCE AT BEGINNING OF YEAR		$69,098,433
SOURCES OF WORKING CAPITAL:		
Net income	$20,723,214	
Retained income credits—Net	765,014	
	$21,488,228	
Depreciation and other non-cash income items	15,207,934	
Net transfer from capital and other reserve funds principally for retirement of Series "R" Bonds	7,784,016	
Repayment of notes by Western Fruit Express Co.	1,350,000	45,830,178
		$114,928,611
APPLICATION OF WORKING CAPITAL:		
Additions and betterments, transportation property	$24,167,960	
Miscellaneous non-operating property	146,127	
	$24,314,087	
Less: Proceeds from equipment financing	8,807,988	
	$15,506,099	
Dividends on capital stock	18,293,929	
Reduction of long term debt	24,973,787	
Advanced to Glacier Park Co. for purchase of Western Pacific Railroad Co. stock	4,100,000	
Purchase of stock in, and construction advances to, Great Northern Pipe Line Co.	1,475,000	
Other—Net	272,864	64,621,679
BALANCE AT END OF YEAR		$50,306,932
NET DECREASE IN WORKING CAPITAL		$18,791,501

1960 Class 1 Railroad statistics are preliminary figures.

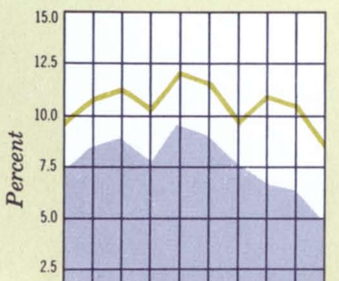
OPERATING REVENUES



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

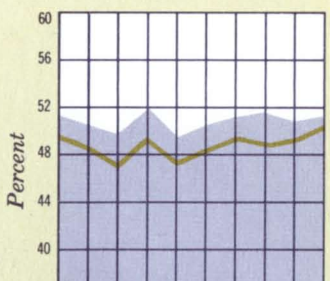
1947-49=100

% NET INCOME TO OPERATING REVENUE



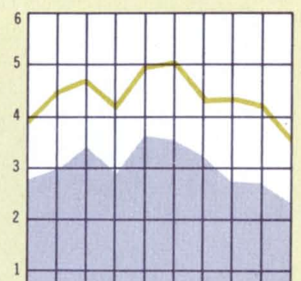
In spite of continued rise in costs, Great Northern's modern facilities, favorable location and "Other Income" enabled it to carry through a higher percentage of revenue to net income.

% WAGES OF OPERATING REVENUES

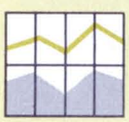


Wages are the largest single operating cost. Great Northern has consistently held the percentage of wages to operating revenues below that of the industry.

TIMES FIXED CHARGES EARNED



Although fixed charge coverage was less than in recent years, Great Northern maintained its usual advantage above that of the railroad industry. Long term debt was reduced substantially.



GREAT NORTHERN RY.

ALL U.S. CLASS 1 R.R.

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

GREAT NORTHERN RAILWAY COMPANY

STATEMENT OF INCOME AND RETAINED INCOME

Year ended December 31, 1960 with comparative figures for 1959

	1960	**1959**
OPERATING REVENUES:		
Freight	$218,533,299	$226,518,812
Passenger, mail and express	19,296,526	20,770,803
Other	8,194,825	7,269,915
Total	246,024,650	254,559,530
OPERATING EXPENSES:		
Transportation	90,568,907	90,413,374
Maintenance of way and structures	39,453,944	40,217,779
Maintenance of equipment	45,378,180	47,548,657
Traffic	6,647,419	6,704,183
General and other	12,003,406	12,224,508
Total	194,051,856	197,108,501
NET REVENUE FROM RAILWAY OPERATIONS	51,972,794	57,451,029
TAXES AND RENTS:		
Federal income tax (note 3) less adjustment of prior years' provisions of $1,100,000 in 1960 and $2,100,000 in 1959	5,850,807	7,762,426
Payroll and other taxes	22,850,709	22,099,460
Equipment and joint facility rents—net	4,835,830	3,378,715
Total taxes and rents	33,537,346	33,240,601
NET RAILWAY OPERATING INCOME	18,435,448	24,210,428
OTHER INCOME:		
Dividends	6,313,714	6,338,014
Interest	3,177,810	2,946,514
Rent and miscellaneous income—net	1,278,823	1,477,385
Total	29,205,795	34,972,341
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT	8,482,581	8,414,068
NET INCOME	20,723,214	26,558,273
RETAINED INCOME AT BEGINNING OF YEAR	368,817,153	361,839,009
Total	389,540,367	388,397,282
DEDUCT:		
Dividends	18,293,929	18,310,154
Miscellaneous net charges (after related income tax reduction of $1,358,909 in 1960 and $1,375,807 in 1959)	1,254,377	1,269,975
Total	19,548,306	19,580,129
RETAINED INCOME AT END OF YEAR	$369,992,061	$368,817,153

See accompanying notes to financial statements.

GREAT NORTHERN RAILWAY COMPANY BALANCE

ASSETS	1960	1959
Current Assets:		
Cash and temporary cash investments	$ 60,375,993	$ 63,456,922
Accounts receivable	16,745,229	16,620,929
Material and supplies, at cost	24,069,862	24,125,822
Other current assets	571,762	722,544
Total current assets	101,762,846	104,926,217
Capital and Other Special Funds	2,736,775	10,293,855
Investments, at or below cost:		
Affiliated companies (note 5)	175,456,083	171,070,990
Other companies	995,740	876,610
Reserve for adjustment of securities	(6,318,353)	(6,318,353)
Total investments	170,133,470	165,629,247
Properties (note 1):		
Road and roadway structures, etc.	553,286,414	552,825,040
Equipment	323,737,184	312,615,986
Acquisition adjustment and donations and grants	(11,079,585)	(10,639,883)
Total transportation property	865,944,013	854,801,143
Allowance for depreciation and amortization	(213,415,734)	(207,376,590)
Net transportation property	652,528,279	647,424,553
Non-operating property, less depreciation	12,772,518	12,710,746
Net properties	665,300,797	660,135,299
Other Assets and Deferred Charges	10,091,311	9,007,617
Total Assets	$950,025,199	$949,992,235

SHEET *December 31, 1960 with comparative figures for 1959*

LIABILITIES AND SHAREHOLDERS' EQUITY	1960	1959
CURRENT LIABILITIES (note 2):		
Accounts payable	$ 11,784,695	$ 10,766,768
Accrued payroll	3,976,271	5,264,387
Accrued taxes	13,403,711	14,705,960
Other current liabilities	22,291,237	5,090,669
Total current liabilities	51,455,914	35,827,784
DEBT DUE WITHIN ONE YEAR (note 2)	8,279,594	7,702,511
LONG-TERM DEBT:		
General mortgage gold bonds, 2⅝% to 5%—$14,154,900 due 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	178,662,900	195,343,900
Equipment and other obligations, 2% to 5%—$8,563,594 due in 1962, $8,553,318 in 1963, $7,705,319 in 1964, $7,010,000 in 1965, $5,710,000 in 1966, $4,222,000 in 1967, $3,938,000 in 1968, $3,485,000 in 1969, $2,724,000 in 1970, $2,504,000 in 1971, $2,146,000 in 1972, $1,488,000 in 1973, $745,000 in 1974, and $296,000 in 1975	59,090,231	59,049,273
Total long-term debt	237,753,131	254,393,173
RESERVES AND OTHER LIABILITIES (note 2)	12,435,515	12,008,443
Total liabilities	309,924,154	309,931,911
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 129,254 shares and 108,086 shares at respective dates, of which 106,112 shares and 86,714 shares were reserved for officer and employe options at prices ranging from approximately $24 to $58	5,841,711	4,907,954
Common stock outstanding	268,186,439	269,120,196
Capital surplus	1,922,545	2,122,975
Retained income, including $1,125,000 and $1,375,000 at respective dates appropriated for sinking funds	369,992,061	368,817,153
Total shareholders' equity	640,101,045	640,060,324
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$950,025,199	$949,992,235

See accompanying notes to financial statements.

GREAT NORTHERN RAILWAY COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 1960

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 and other liabilities of approximately $8,300,000 payable in 1961 and debt due within one year of $8,279,594 are not included in current liabilities.

3. In determining the estimated Federal income tax liability for 1960, the Company deducted approximately $5,300,000 from income for amortization of emergency facilities and accelerated depreciation in excess of recorded depreciation. This reduced the 1960 Federal income tax provision by approximately $2,800,000. The corresponding aggregate reduction in Federal income taxes applicable to the net excess of amortization and accelerated depreciation over recorded depreciation for the years 1950-1960 amounted to $31,300,000.

4. The Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately $16,700,000 at December 31, 1960. 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 $14,000,000.

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, 1960 (as shown by their unaudited financial statements) amounted to $11,491,539 of which $349,730 represents 1960 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, 1960, 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, 1960 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 7, 1961

Peat, Marwick, Mitchell & Co

A railway's "product" is service. Producing this service is the ultimate achievement of all the activities associated with railroading.

Tools for the fashioning of our product are provided by the invested savings of the company's shareholders and bondholders.

It is the responsibility of management to utilize these tools efficiently so that our product may be sold at a profit.

But still another essential ingredient in the production of service is the human element . . . the ability and desire to serve.

We who comprise the Great Northern family are proud of our many individual roles in maintaining a tradition of fine service. We hope that this pride is shared by the railway's owners everywhere, who in turn will use, whenever possible, and recommend to others the services we offer.

GREAT NORTHERN RAILWAY, SAINT PAUL, MINNESOTA