

# Great Northern Railway 74th Annual Report 1962





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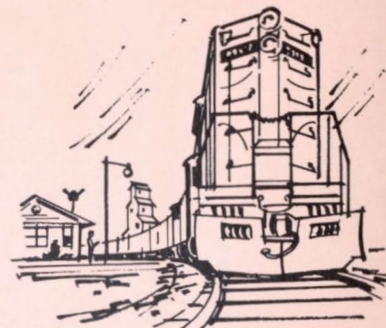
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Assistant Treasurer, New York*
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## GREAT NORTHERN RAILWAY COMPANY

GENERAL OFFICES:  
GREAT NORTHERN RAILWAY BUILDING  
ST. PAUL, MINNESOTA

SEVENTY-FOURTH ANNUAL  
REPORT FOR THE YEAR  
ENDED DECEMBER 31, 1962



Our cover scene is really a prototype, as anyone knows who has traced the westward march of "prairie skyscrapers" (country elevators) across the vast grain-producing territory served by Great Northern. The hot-shot freight thundering through the night—nostalgic yet excitingly modern and vital—bespeaks the continued interdependence of the railroad and the fruitful land it serves.



**HIGHLIGHTS****1962****1961****FINANCIAL  
DATA**

Net Income.....	\$ 25,018,986	\$ 18,632,420
Per Share.....	\$4.12	\$3.07
Dividends Paid.....	\$ 18,220,775	\$ 18,236,342
Per Share.....	\$3.00	\$3.00
Shareholders.....	44,351	41,794
Operating Revenues.....	\$238,940,423	\$232,951,918
Operating Expenses.....	187,808,766	185,066,905
Federal Income Taxes.....	3,825,000	5,775,000
Available for Fixed Charges.....	33,004,806	26,785,037
Fixed Charges.....	\$ 7,985,820	\$ 8,152,617
Times Fixed Charges Earned.....	4.13	3.29
Return on Property Investment.....	3.36%	2.40%
Cash and Temporary Investments Dec. 31.....	\$ 56,689,363	\$ 45,251,581
Working Capital Dec. 31.....	43,852,328	38,736,729
Funded Debt Dec. 31.....	\$234,890,536	\$242,399,130

**OPERATING  
AND WAGE  
STATISTICS**

Miles of Road Operated.....	8,270	8,277
Revenue Net Ton Miles (millions).....	16,137	15,100
Revenue Passenger Miles (millions)....	503	432
Ratios to Revenues:		
Net Income.....	10.5%	8.0%
Transportation Expenses.....	37.0%	37.7%
Maintenance Expenses.....	33.8%	34.0%
All Operating Expenses.....	78.6%	79.4%
Employees.....	18,128	18,619
Wages Paid.....	\$117,973,630	\$117,288,605
Employment Costs (Payroll plus Benefits, Payroll Taxes, etc.).....	\$132,364,421	\$131,601,610





*To Great Northern Shareholders:*

This is a report of Great Northern operations in the milestone year of 1962, during which our railway completed its first century of continuous service.

Net earnings of \$4.12 per share for the year were considerably above the \$3.07 in 1961, in large part due to the change in tax regulations as explained later in the report. Federal income taxes decreased by \$2 million. Had the regulations remained the same, these taxes would have increased \$3 million.

Freight revenues of \$209.2 million were 2% higher than in 1961. Passenger revenues, on the other hand, increased 16% to reach a total of \$11.7 million, the highest since 1953. Travel during the summer was boosted materially by the Seattle World's Fair, a non-recurring event.

Contributing to the improvement in net income, in addition to the change in tax regulations, were (1) a smaller increase in expenses for operating and maintaining the property than the increase in revenues and (2) a reduction in rental payments for use of equipment. These are dealt with in detail later in the report.

Expenditures for capital improvements were substantially below those of the last several years. Acquisition of new rolling stock and improvements to fixed property were both on a reduced basis. As a result equipment obligations declined during the year and cash attained a more satisfactory level.

Adequate maintenance work has kept the railway in good condition. Newly developed machinery has changed the methods and has increased the efficiency of this type of work as well as extending the lives of such important elements as rails, ties, ballast, buildings, etc.

Hearings on the proposed merger involving Great Northern ended on July 11. On January 4, 1963 briefs were filed by twenty-nine interested parties with the Examiner who conducted the hearings. His recommendations, expected in the relatively near future, will go to the Interstate Commerce Commissioners for their final determination after interested parties have had opportunity to file exceptions to the report.

Since nearly half of Great Northern revenues is required to meet labor costs, particular attention has been given to this important element of expense. Much of the fundamental pattern of wages, working conditions and increased fringe benefits is traditionally established on an industry-wide basis. One important case involving working rules among the operating employees has been in controversy for over three years. The changes proposed by the railway industry were appealed to the Supreme Court of the United States by the unions. The Court affirmed an earlier decision of the Court of Appeals which was favorable to the railways' position. Substantial savings and improvements in service are expected when this modernization of rules is accomplished.

After long and careful preparation, on April 5, 1962 the President of the United States for the first time in history sent to Congress recommendations for legislative changes dealing with transportation. The message recognized the serious situation in the transportation field, particularly among the common carriers, the need for less regulation and greater reliance on competition, and the need for more equality of treatment. The Administration is expected to press for corrective action in the present session of Congress.

Looking forward to 1963, labor and legislative matters loom large in importance for the industry. While the year is not expected to bring any substantial change in Great Northern's operations, the availability of additional funds from recent tax incentives will permit a stepped-up program of improvements. Some increase in freight traffic is foreseen, but passenger traffic probably will drop back to the 1960-1961 level. It is anticipated that net income will be about the same as in 1962.

In concluding this letter I wish to express on behalf of the whole Board of Directors appreciation for the spirit and excellence with which the officers and employees conducted the affairs of the company during the past year.

 PRESIDENT

March 4, 1963



# FINANCIAL REVIEW...1962

As the year 1962 began, the national economy was in a period of expansion with generally higher levels of traffic on most railroads. Great Northern's revenues, unfortunately, did not follow this favorable trend during the early months of the year primarily because of reduced grain tonnage from the poor 1961 harvest. With the coming of spring, however, the traffic picture brightened and the second quarter was considerably better than the comparable period in 1961. The improvement tapered off after mid-year and car loadings in the last quarter were considerably below expected levels. A favorable circumstance in 1962, with a carry-over effect into 1963, was the excellent grain crop harvested in much of Great

Northern territory. Revenues in the coming months should increase as this grain now stored in near record amounts moves to market.

**NET INCOME** Net income of \$25.0 million, equal to \$4.12 per share, was earned in 1962 compared with \$18.6 million or \$3.07 per share in 1961. While a small part of the increase (.23¢ per share) came from improvement in operations, a major reason for the higher net income was a decrease in Federal income taxes. This resulted from the new depreciation guidelines of the U. S. Treasury and the 7% investment tax credit enacted by Congress in 1962. These benefits may have to be repaid at least in part at some time in the future, but the timing or extent of the deferral is not known at this time.

The annual dividend of \$3.00 per share was continued in 1962 with quarterly payments of 75¢ per share.

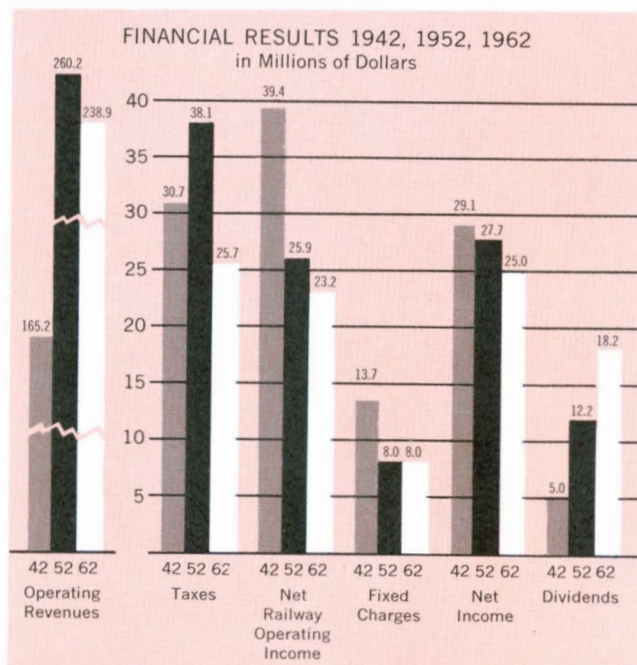
Operating revenues of \$238.9 million in 1962 were \$6.0 million or 2.6% more than in 1961. It was possible to move the increased business with an increase of only \$2.7 million in operating expenses. Taxes in 1962 were \$2.0 million less than in 1961.

Fixed charges were earned 4.13 times after payment of taxes.

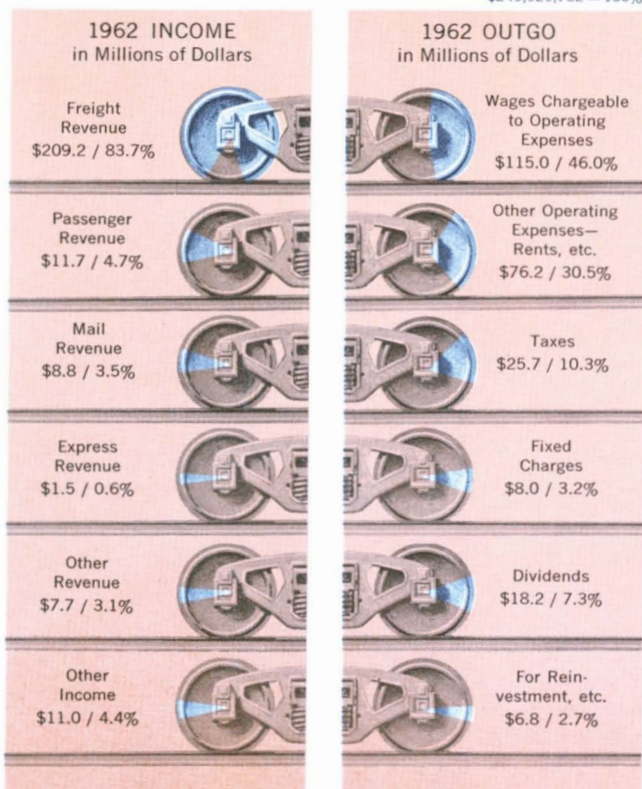
The reported net income of Great Northern does not include its share of the undistributed net income of partially or wholly owned subsidiary companies. Among these are Chicago, Burlington & Quincy Railroad Company (48.6% owned), Spokane, Portland and Seattle Railway Company (50% owned), Western Fruit Express Company (100% owned), and several minor wholly owned companies. During 1962 this equity amounted to \$4.9 million or 80¢ per share of Great Northern stock. The amount actually received in dividends and interest and reported as "Other Income" from these and other investments more than covered all of Great Northern's fixed charges.

**FINANCIAL POSITION AT END OF YEAR** During the year, cash and temporary investments increased \$11.4 million from \$45.3 million at the end of 1961 to \$56.7 million on December 31, 1962.

Current assets were \$91.3 million and current liabilities amounted to \$47.5 million. Net working capital increased during the year from \$38.7 million to \$43.9 million. Funded debt at the end of 1962 was \$234.9 million, a decrease of \$7.5 million during the year.



\$249,929,732 = 100%





## REPORT ON UNIFICATION

During 1962 substantial progress was made toward the goal of merging the Great Northern, Northern Pacific, Chicago, Burlington & Quincy, Spokane, Portland and Seattle, and Pacific Coast railways into a single modern system. The studies which began in 1956 culminated in the filing of an application with the Interstate Commerce Commission on February 17, 1961 for authority to proceed with the merger. Examiner Robert H. Murphy was assigned to hear the case by the Commission.

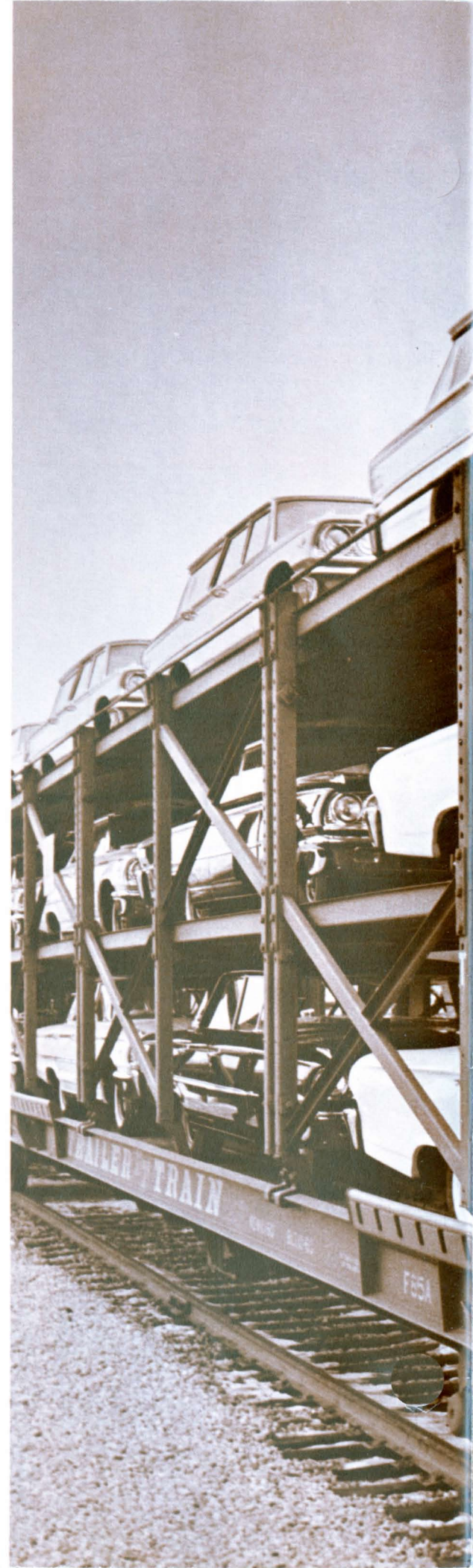
At the opening hearing in St. Paul, October 10-13, 1961, most of the affirmative case of the applicants was presented. Cross-examination of these witnesses by intervenors was begun in December 1961 and completed in January 1962. Thereafter, hearings were held throughout the territory of the merging lines, finally closing in Minneapolis on July 10, 1962. The record consists of 15,004 pages of transcript plus thousands of pages of exhibits. Altogether 393 witnesses appeared at the hearings in support of the application. These include, besides the applicants' officers who described the merger proposals, witnesses representing shippers, chambers of commerce and trade associations who testified to the public benefits which will result from the merger.

Appearing in opposition to the merger were the railroad labor organizations and a few states and other governmental bodies whose concern for possible loss of jobs led them to speak against the proposal.

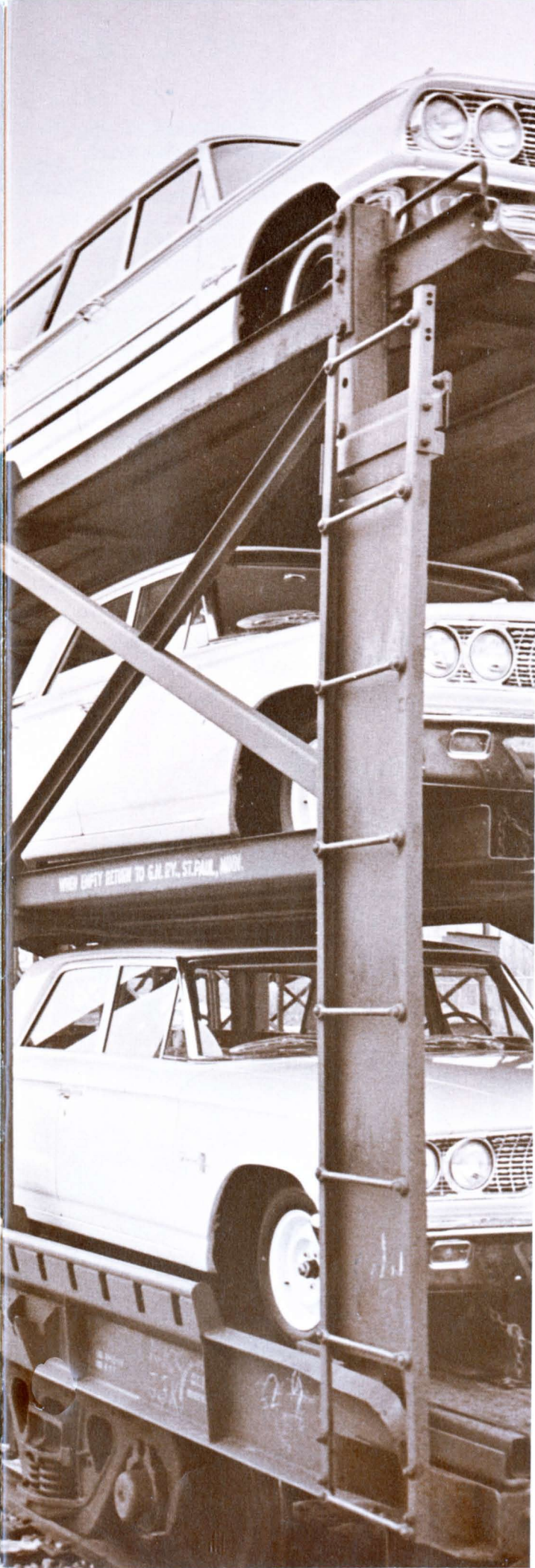
Agreements were reached with six intervening railroads—Union Pacific, Santa Fe, Southern Pacific, Western Pacific, Rock Island and Soo Line—on measures to protect their interests. Conditions demanded by the Chicago and North Western and Milwaukee Road were unacceptable to the applicants.

On January 4, 1963, the Examiner received 29 briefs and is now preparing his report and recommendations. All parties will have the opportunity to take exceptions to his report and to file reply briefs to the exceptions. The case then goes to the Commissioners for decision.

In the meantime, extensive planning is being carried on by personnel of the merging lines so that on approval an orderly transition can be accomplished and the public benefits and economies obtained as quickly as possible.







## REPORT ON OPERATIONS

In spite of disappointing revenues in the early months of 1962, operating results in the first half of the year were substantially better than those of the comparable period of 1961. Although the program of capital expenditures for improvements was cut back in 1962, maintenance programs on track and equipment were continued and essential work was not deferred. A somewhat larger program of roadway maintenance was carried out in 1962 with more ballast and new rail being laid than in 1961. Tie renewals were at about the same level as in the previous year. Rolling stock continues in good condition and the percentage requiring repairs is at a low level. The ratios of both maintenance expenses and transportation expenses to operating revenues were reduced during 1962 and, as a result, the overall operating ratio was at the lowest level since 1959.

### OPERATING REVENUES

Sources of operating revenues were:

Source of Revenue	Operating Revenues (Millions)		Per Cent Change
	1962	1961	
Freight.....	\$209.2	\$204.9	2.1-I
Passenger.....	11.7	10.1	16.1-I
Mail and express.....	10.3	10.1	1.9-I
All other operating.....	7.7	7.9	2.4-D
Total.....	\$238.9	\$233.0	2.6-I

**Freight Revenue** Principal sources of freight revenue in 1962 are shown in the following table:

Commodity	1962 Revenues (Millions)	1961 Revenues (Millions)	Per Cent Change
Grain and grain products.....	\$47.1	\$50.0	5.7-D
Lumber and wood products.....	39.2	37.1	5.8-I
Iron ore, including dock charges.....	18.2	18.3	0.3-D
Paper.....	13.5	13.2	2.7-I
Forwarder traffic and less-than-carload traffic.....	10.1	10.4	2.9-D
Aluminum ore and products.....	8.7	6.5	33.0-I
Crude petroleum, petroleum products and asphalt.....	8.4	9.0	6.3-D
Iron and steel products.....	5.9	5.4	8.9-I
Automobiles and trucks.....	5.2	3.4	53.4-I
Coal and coke.....	5.2	4.9	4.3-I
Potatoes.....	3.4	3.4	—

"Success story" of the multi-level auto rack was repeated in 1962, as railroads recovered a growing share of the new automobile and truck movement. Great Northern's increase in this traffic was better than 53% over 1961.



Since 90% of operating revenues are derived from freight traffic, the overall state of the national economy determines Great Northern's traffic trends. While there are large fluctuations at times in the movement of individual components of the traffic mix, fortunately many different industries and widely separated agricultural areas provide diversity, so that periods of adverse conditions in some are usually offset by good crops or activity in other areas. In 1962 this balancing effect between increases and decreases was of great importance. However, any marked change in the volume of the more important commodities can affect the total revenue picture considerably.

At the beginning of 1962 an estimated 208 million bushels of grain were in storage and awaiting movement from farms and country elevators in Great Northern territory. This amount was sharply lower than the average of recent years because drouth conditions greatly reduced the 1961 crop in the most important grain producing areas along Great Northern. During the first half of 1962 grain movement was slow because of the lesser amount available and because the large amount of empty storage capacity gave assurance that there would be no difficulty in providing the required space for the new 1962 crop when it reached maturity.

Favorable weather conditions in western North Dakota and most of Montana, including ample and timely rainfall, developed exceptionally good crops in those areas. Great Northern territory as a whole had average or better production, except for the Red River Valley where excessive moisture delayed planting and reduced yields and a small area in western Montana where a local drouth condition adversely affected the crop.

During the harvest season car supply was generally sufficient except for one brief period. The harvest season was unusually late and grain loadings were heavy until mid-October, thereafter moving at a sub-normal rate. On

January 1, 1963 an estimated 261 million bushels of grain remained in storage, an amount exceeded on that date only once before. Much of this high quality grain should find ready markets and bolster future loadings.

Prospects for the 1963 crop are favorable, with normal soil moisture in most of the important grain growing areas.

Iron ore movement was relatively good in the early months of the shipping season with inventories at the furnaces normal and the steel production rate fairly high. However, it became apparent that the high production rate had been sustained in part by steel users building up inventories in anticipation of a strike. The cutback in steel production was accompanied by a decline in ore movement from August to the close of the season on the Great Lakes late in November. For the coming year it is estimated that there will be about the same volume of ore as in 1962, although there could be some increase if general business conditions are favorable.

With increasing imports of foreign ore and the development of domestic and foreign processing plants which produce pellets of high and uniform iron content—a superior blast furnace feed—the long-range future of Great Northern's iron ore traffic is dependent on construction of taconite processing plants on the western end of the Mesabi Range. The technical difficulties in processing non-magnetic taconite are being overcome by research. The location of large-scale plants in Minnesota depends in considerable part on assurance of a better tax climate for capital investment in mineral processing plants in the state, a matter now receiving attention.

As indicated in the table there was a significant increase in the movement of automobiles, reflecting an excellent production year in the industry. Even more important from a railroad standpoint was the successful use of multi-level rack cars. By developing this new method and equipment, railroads have successfully provided greater economy to shippers.

An important job handled skillfully by Great Northern in 1962 was the coordinated rail-truck haul of these huge 52-foot sections of launch tube to Minuteman missile construction sites near Minot, North Dakota.





**Freight Rates** Traffic originating and terminating in the area we serve is surveyed continually with the objective of maintaining profitable revenues for our company and providing attractive rates for our customers that will permit them to compete in their markets. Studies are related not only to other rail transportation competition but to the other modes of transportation—highway, water, pipe line and air freight transportation.

There were few changes in the general level of freight rates during the year. Some reductions were made to bring individual rates on certain commodities into a more competitive position by bringing rail prices closer to those of other forms of transportation or to protect the competitive position of producers in Great Northern territory who sell their products in distant markets. As an example, grain rates from Montana to the North Pacific Coast and to California were reduced to meet a trend toward use of other modes of transportation which are unregulated.

In the field of piggybacking much additional progress was made in providing attractive rates, thereby increasing the use of trailer-on-flat-car service on our lines.

With respect to lumber, a reduction of 7¢ per hundred pounds which was in effect throughout the year 1962 on eastbound transcontinental traffic was extended to remain in effect until May 31, 1963, continuing a program of assisting the lumber industry in the Pacific Northwest to maintain a competitive position in eastern and midwestern markets.

Rates on automobiles moving on bi- and tri-level cars to destinations in Great Northern territory were extended during the year to cover additional origin points. The volume of automobiles and trucks moving in this type of equipment increased substantially over that of 1961, and utilization is being made of this specialized equipment for other commodities such as farm tractors. In addition, traffic is being developed to make use of these cars in the reverse direction, i.e. toward the automobile assembly plants.

In many cases rate adjustments are coupled with incentives for heavier loading of freight cars or for use of larger capacity cars, so that the railroad benefits through lower operating costs to compensate in part for the reduced rates paid by shippers.

**Passenger Revenue** Passenger revenues were most encouraging during 1962, totaling \$11.7 million, an increase of 16.1% over 1961. The Seattle World's Fair had a very marked effect on passenger traffic. During the summer months our transcontinental trains were operated at capacity and a second section of the Western Star was required. The number of people arriving at Glacier Park by rail increased almost 100% over the 1961 figure, as passengers visited the Park enroute to or from the Fair.

The Big Mountain ski resort at Whitefish, Montana continued to boost passenger traffic. In 1962, movement



Launch tube section for a Minuteman missile arrives by rail at bustling Bethlehem steel yard in Minot. These and other steel components were moved to widespread launch and control sites by GN truck.



of passengers for the Big Mountain ski resort increased 16% over 1961 and we are optimistic that patronage to this area will continue to grow.

On March 1, 1962 coach class fares were increased 5% to the level generally observed by other western lines. However, when the U. S. transportation tax of 10% on passenger fares was discontinued on November 15, 1962, Great Northern did not join other roads in making an equivalent fare increase but instead passed the saving on to its patrons. Several fare reductions have been made on a selective and experimental basis.

The passenger train operating loss became a matter of increasing concern in the 1950's as the deficit reached a peak of \$9 million in 1957. By 1962, with reduced costs and a substantial increase in traffic volume, revenues fell short of expenses related solely to passenger service by only \$2.4 million.

In the absence of World's Fair travel in 1963, it is not likely that results will be as favorable as in 1962. However, every effort will be made to turn losses into a profit. It is hoped that future concentration of our passenger service in a small number of attractive trains with high standards of service and the lowest possible fares will secure the volume of traffic required for profitable operation.

**Mail and Express Revenues** Mail revenue for 1962 was \$8.8 million, an increase of \$149,000 from 1961. The flow of U. S. mails to the Pacific Northwest from the east is handled principally by Great Northern. The volume of westbound mail traffic from the Twin Cities reached a new peak in December 1962 and total traffic for the year exceeded previous records.

The reorganization of operations of REA Express, which began several years ago, was nearly completed in 1962. The service, which has rapidly been modernized with the

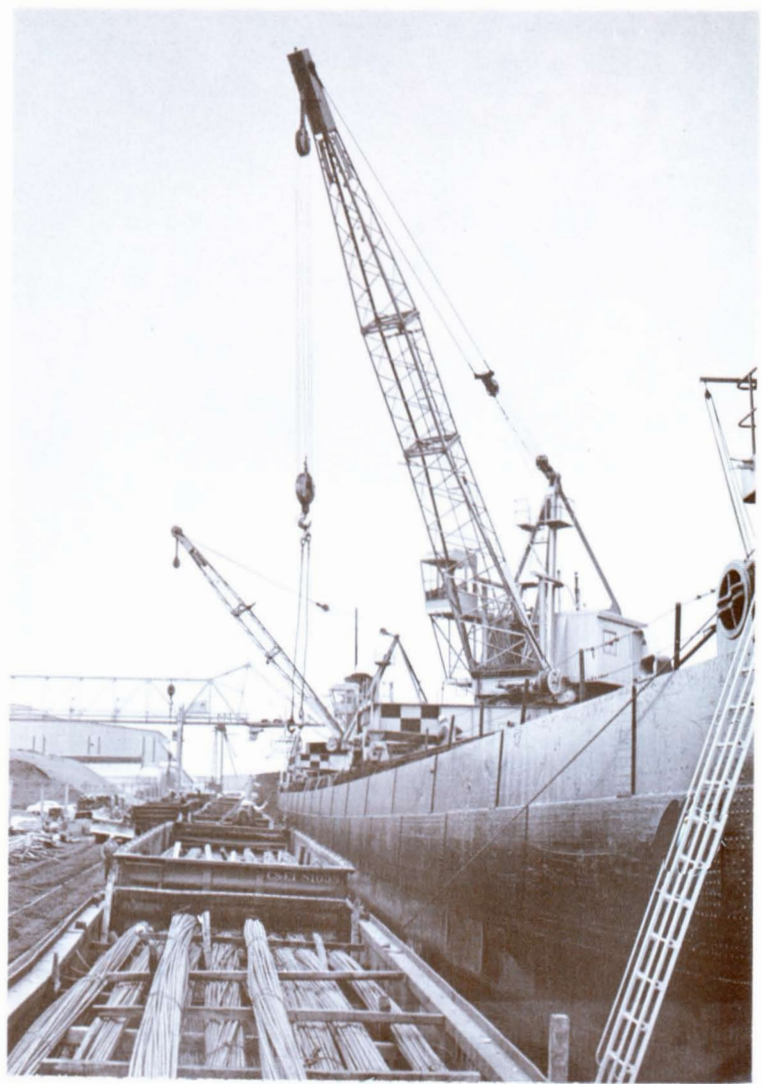
introduction of new methods, facilities and rates, is capable of handling small package shipments by surface and air carriers on a nationwide basis. Great Northern in 1962 received \$1.5 million for transportation of express traffic.

**OPERATING EXPENSES** Railway operating expenses in 1962 amounted to \$187.8 million, an increase of \$2.7 million from 1961. Since expenses increased only 1.5% while revenues increased 2.6%, the operating ratio—the proportion of operating revenue taken by operating expenses—declined from 79.4% to 78.6%. While small, the decline in this important ratio was welcome as it reversed an unfavorable upward trend which has prevailed since 1958. The improvement was accomplished despite an increase in the average hourly employment cost, including fringe benefits, from \$3.59 in 1961 to \$3.70 in 1962.

Transportation expenses, which include the cost of operating trains, stations and yards, were \$88.4 million, only slightly higher than in 1961 in spite of a 6.9% increase in the physical volume of freight traffic handled and a 16.4% increase in passenger miles.

Maintenance of way expenses of \$37.9 million in 1962 were higher than the \$36.4 million charged to this account

Steel for construction of the Minuteman missile complex at Minot, North Dakota is transferred from Great Lakes freighter to Great Northern freight car at the Duluth Dock & Transport Company, in Duluth.





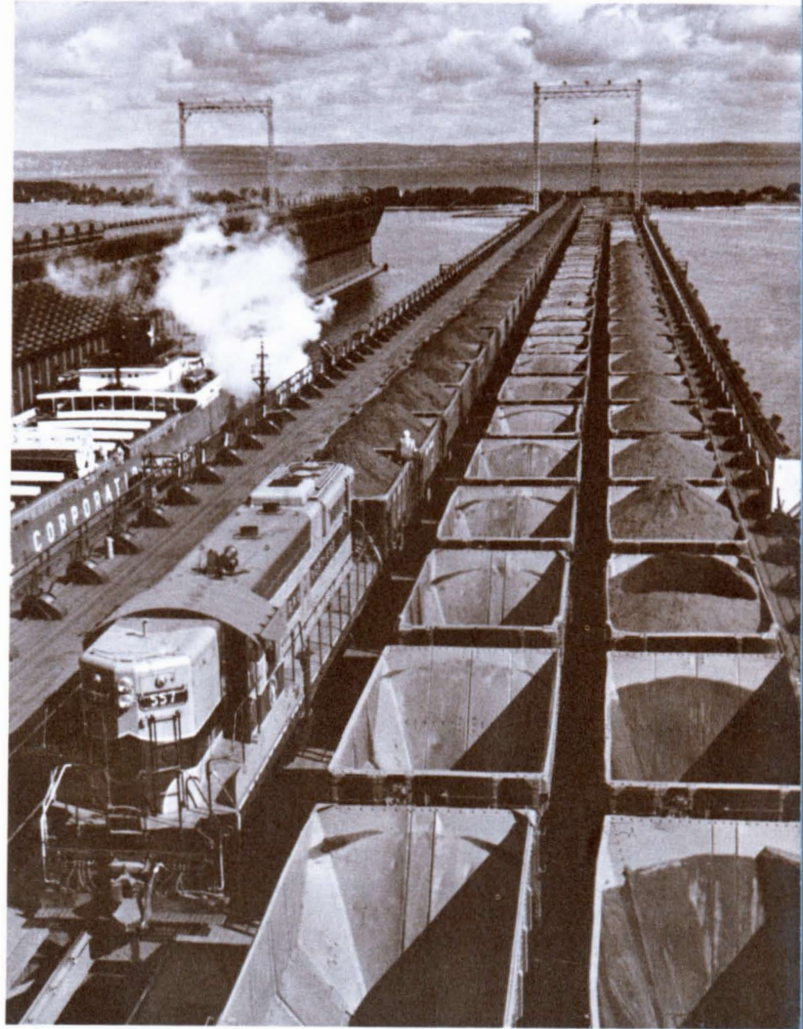
in 1961. A substantially larger program of new rail laying and crushed rock ballasting was carried out than in 1961. Continued acquisition of specialized track maintenance equipment has permitted a reduction of expenses for ordinary maintenance work and at the same time an improvement in the physical condition of the roadway and structures.

Maintenance of equipment expenses of \$42.9 million in 1962 were almost the same as the \$42.7 million of 1961. The percentage of rolling stock requiring repairs continues at a low level. Only 3.0% of freight cars on our line needed heavy repairs compared to a national average of 6.7% at the end of 1962.

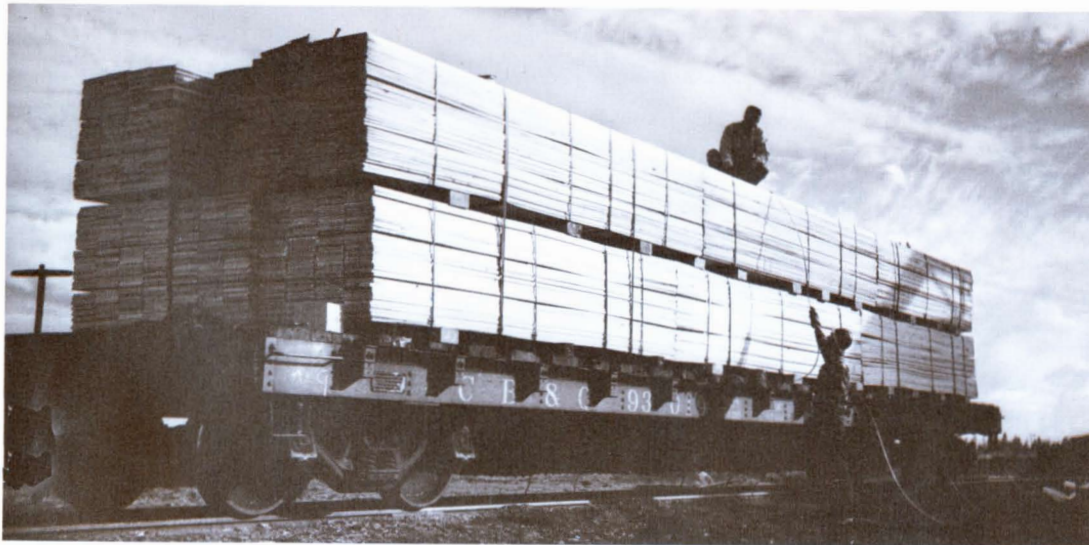
The overall ratio of maintenance expenses to operating revenues declined from 34.0% in 1961 to 33.8% in 1962, while the transportation ratio dropped from 37.7% to 37.0% in the same years.

Requirements for fast and dependable rail freight service continue to be more exacting because of truck competition. Furthermore, Great Northern has a relatively high proportion of light density branch line mileage on which freight service must be provided regardless of fluctuations in traffic. In spite of these adverse factors, the important indices of operating efficiency improved sharply in 1962. For example, gross ton miles per freight train hour, which reflects the best possible loading of trains and their speed, rose to the highest on record at 72,820 from 68,670 in 1961. This figure has shown a steady increase, with an improvement of 46% in the last decade. Freight trains continued to run faster than ever before. The average speed in 1962 was a record 22.6 miles per hour, an increase of 32% in the past ten years.

**RENTALS OF EQUIPMENT** Payment of \$1.9 million for net rental of freight cars was at the lowest level in many years. While every effort is made to mini-



Iron ore remained Great Northern's third most important source of freight revenue in 1962, although tonnage slipped. This scene is at Allouez Docks in Superior, Wisconsin.



A unitized carload of Montana fir and larch lumber, secured with steel strapping, is checked at Columbia Falls. This new loading method provides easier handling and reduces costs for shipper.



mize equipment rentals, the low payments in 1962 unfortunately reflect in part the reduced movement of grain and iron ore during the year and in part an inadequate supply of cars in the Pacific Northwest. Reduced rental payments resulting from a car shortage are a poor substitute, however, for a supply of equipment sufficient in all ways to meet the needs of our shippers.

While Great Northern owns a fleet of wide-door box cars adequate to meet the needs of its shippers in the Pacific Northwest, more cars of this kind are loaded on Great Northern than are unloaded, and unless cars of this type are returned promptly we run short. Some railroads which are in financial difficulties are unable or unwilling to repair or acquire cars of the types most in demand, and because of their inadequate contribution to the car supply not enough cars are available on a nation-wide basis to take care of all the needs of shippers. Accordingly, Great Northern equipment frequently does not return home promptly and cars sent to us instead of our own are inadequate both in numbers and in quality.

The problem of maintaining an adequate national supply of high grade box cars has become steadily worse, since the rental paid to an owner for the use of cars is too low to provide an incentive for acquisition of equipment or to expedite the return of cars to their owners.

All efforts to resolve this problem within the industry have failed and Great Northern, together with some other lines, has supported legislation which would permit the Interstate Commerce Commission to increase per diem rates on any class of equipment in which there are shortages, thereby providing an incentive for further acquisition of cars. The present rates, even though inadequate, have been challenged and are under investigation by the Interstate Commerce Commission.

**Taxes** Great Northern's \$25.7 million tax bill represents almost 11% of total revenues. It falls into three general categories. First are income taxes paid largely to the Federal Government. The changes in tax laws and in Treasury regulations had a substantial effect in reducing 1962 Federal tax liabilities as described elsewhere in this report.

Second are payroll taxes paid to the Federal Government for the Railroad Retirement fund and for unemployment compensation. Railroad employees are given special treatment by the Federal Government, providing higher benefits both for retirement and for unemployment than those paid to workers in other industries. The Railroad Retirement Board administers both retirement and unemployment insurance systems. During 1962 payroll taxes increased to a record level of \$9.9 million because of higher tax rates. The increase occurred in spite of a 2.6% decrease in the number of employees.

The third and largest single category of tax payment is for property taxes paid chiefly to the states for the general expense of operating state and local governments, particularly the school systems. This type of tax totaled \$12.0 million in 1962.

Tax payments are a heavier burden on the railroads than on other modes of transportation since a higher percentage of revenues goes toward support of government expenses. This inequity in taxes paid by different forms of transportation was recognized by President Kennedy in his message to Congress on April 5, 1962, when he said: *"The same accidents of circumstance that have molded our transportation regulatory policies and programs have largely determined specific transportation taxes. As a result, inequities have developed and in some instances have persisted for many years."*

Maintenance of way work on Great Northern has been speeded by this newly-developed production tamper, equipped with electronic controls. It automatically measures track surface, jacks the track to a pre-determined level and tamps the ballast.





## IMPROVEMENTS IN FACILITIES

The capital expenditure program for 1962 was substantially below the average of the last several years. That part dealing with rolling stock was confined to a modest acquisition of specialized equipment to attract new business and to complete work authorized in previous years. The portion of the program for fixed properties included enough roadway improvement work to provide normal replacement of rail, ballast and other elements of the track structure. The absence of large-scale equipment purchases permitted improvement of the cash position and reduction of outstanding equipment obligations to more satisfactory levels.

Additions and betterments in 1962 totaled \$10.0 million, with \$5.7 million for roadway and structures, and \$4.3 million for equipment. The program planned for 1963 is considerably heavier, with particular emphasis on equipment and roadway projects which will fit in well with operation after consolidation. The capital program for 1963 provides for a total expenditure of \$25.3 million.

**EQUIPMENT PROGRAM** The 1962 program for equipment was concentrated on specialized equipment plus continuation of a program of upgrading box cars to modern standards. The principal items of new freight car equipment included purchase of 54 high-capacity covered hopper cars. These cars are of 4000 cu. ft. capacity, the largest size presently built, and were equipped with 100-ton

capacity trucks so that maximum weights of lading can be carried. In addition, 20 airslide-equipped covered hopper cars were purchased. These cars are needed for the increasing shipments of bulk flour and sugar. Fifty 24,000 gallon capacity tank cars were purchased. These cars are presently handling a variety of liquid commodities where their large size makes them especially suitable for long distance movements in bulk.

Great Northern's shops at St. Cloud, Minnesota completed a program of installing steel sides on a group of box cars originally built in 1937-1942 with wooden outside sheathing. 1,000 cars were restored to high-grade condition—800 of them as single door cars. The remaining 200 had double doors applied to provide a wider opening suitable for fork lift loading of lumber, plywood and similar commodities.

To provide equipment for the rapidly growing automobile traffic, Great Northern acquired 60 bi-level and tri-level racks for application to long flat cars. Most of the racks were placed on cars of the Trailer Train Company pool in which Great Northern participates as a part owner.

Great Northern's wholly owned subsidiary, Western Fruit Express Company, purchased 135 insulated box cars especially designed to handle canned goods and other commodities which require some protection from extreme temperatures but do not need either refrigeration or heating.



This new 225-foot steel truss span across the North Fork of the Skykomish River is part of a major relocation project in the Cascade Mountains. Partially dismantled old bridge can be seen in distance.



The equipment program for 1963 includes capital expenditures of \$17.1 million. The principal items are \$3.4 million to acquire 17 new 2250 HP diesel electric freight units and \$12.5 million to acquire new freight cars including 700 new box cars and 140 cars of other types. All of the box cars will be 50 feet or longer and have roller bearing trucks. High capacity cars of this kind have been in particularly short supply since incentive rates for heavier loading have been published. All will have wide door openings to facilitate the use of mechanical loading equipment.



Designed for bulk commodities such as feed, grain and malting barley, these new "jumbo" aluminum hopper cars weigh far less than a conventional covered hopper but carry a greater payload.

## FIXED PROPERTY IMPROVEMENTS

Capital expenditures on roadway and structures in 1962 were largely confined to routine replacement of rail and ballast, although these projects were on a larger scale than in the previous year. New 115 pound rail was laid on 53 miles of main line, much of it continuously welded in quarter-mile sections. In addition, secondhand rail was used to replace light wornout rail on 64 miles of secondary lines. In overhauling 75 miles of line, new crushed rock ballast was applied. A total of 409,000 cubic yards of prepared ballast was placed on main and branch lines.

The principal project other than track work carried forward in 1962 was continuation of a line change at Index, Washington on the west slope of the Cascade Mountains. This involves very heavy grading work and new bridges over the Skykomish River and its tributaries. This project, begun in 1961, will be carried out in a number of phases. Its purpose is to reduce sharp curves and permit higher speeds with less maintenance expense. A portion of the new line is now in service and work was started on the second phase during the year.

The program for capital expenditures in 1963 on fixed property provides for work budgeted at \$8.2 million. The usual program of track improvements includes laying of 75 miles of new rail, 106 miles of secondhand rail and application of 448,000 cubic yards of ballast. The major projects include installation of 121.9 miles of centralized traffic control on the main line where traffic density is highest. This work between Juanita and Aylmer, North Dakota, and between Chester and Shelby, Montana, will provide remote control of switches and signals from existing CTC installations at Minot, North Dakota and Havre, Montana. Work will also continue on a major communication program to convert all principal telephone circuits to direct dialing.

Other projects include continuation of work on the Index line change mentioned previously, completion of concrete lining of a tunnel near Belton, Montana and a series of minor line changes to reduce curvature in western North Dakota between Minot and Williston.

Growth of the Puget Sound area is reflected in public warehouse construction. Hullin Transfer Company's attractive new facility at Seattle is one of several of its type constructed or expanded on Great Northern trackage in 1962.





## SERVICE IMPROVEMENTS AND TRAFFIC DEVELOPMENT

During 1962 piggybacking continued to grow in total volume and in diversity of traffic as more shippers took advantage of the flexibility and economy of this service. Revenue for the year was \$3,170,000. While piggybacking contributes only a small percentage to total freight revenue, it is growing much more rapidly than freight business as a whole and the growth potential makes it extremely interesting.

In the trailer-on-flat-car field, efforts in 1962 were directed toward broadening the scope of available rates to enter fields in which private trucking had been particularly active. These included meat and packing house products from the Middle West to the Pacific Northwest, dressed frozen turkeys from Minnesota to the East, fruits from the Wenatchee area of Washington to the East, and lime from Duluth, Minnesota to the Dakotas.

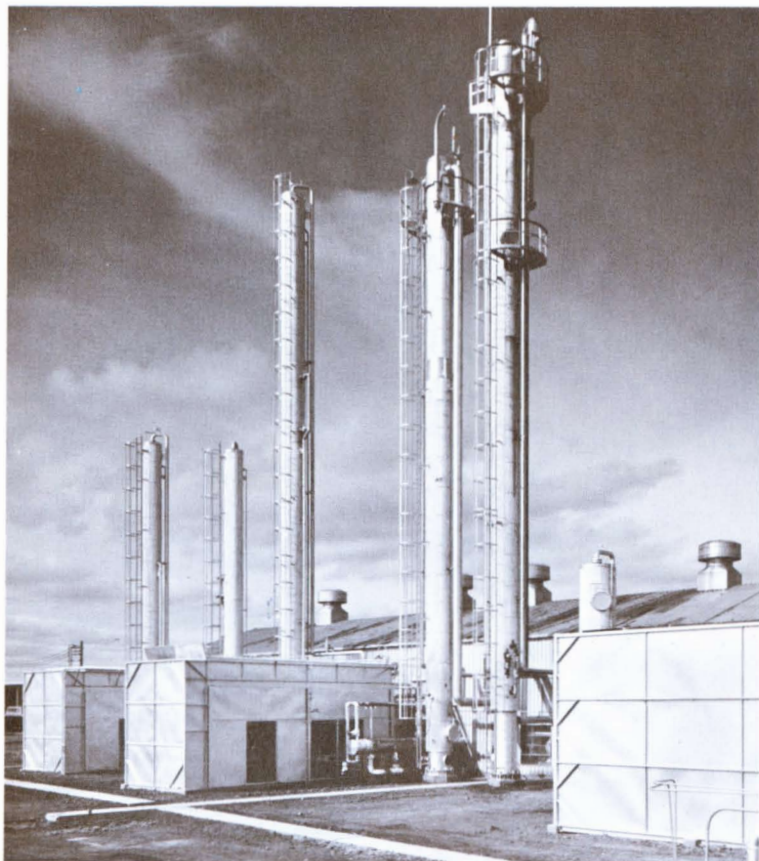
The movement of automobiles was first restored to rail movement by piggybacking highway trailers in 1959. Since then the use of bi-level and tri-level racks has developed and has been so successful that revenue from automobiles and trucks in 1962 was four times the level of 1958.

In order that customers throughout the country can be kept informed regarding their shipments, Great Northern off-line traffic agencies are connected by a network of leased teletype circuits. Transmission speeds on these lines were increased from 60 words per minute to 75 and 100 words per minute to provide more capacity for speedy transmission of data.

A major improvement in on-line communications was nearly completed in 1962 with installation of direct dial telephone service between major cities on the system.

The dependability of Great Northern freight service reached a high level of performance in 1962. Between Seattle and the Twin Cities, freight train No. 402 provides daily scheduled service over the run of nearly 1,800 miles. Although the train operates on the fastest schedule ever published, the first two sections of the train which operate for the full distance had an average on-time performance of 97.2% during 1962.

**INDUSTRIAL EXPANSION** Industrial development work is done in two principal ways. First is research and investigation of possible sources of traffic. Research is important for its long-range benefits to the railway. In this field Great Northern sponsored a program of research on the non-magnetic taconite ore of the Mesabi Range of Minnesota. A great deal of work was done at the Universities of Minnesota and North Dakota on correlating data on the mineralogy and metallurgy of the ores of the western part of the Mesabi Range served by Great Northern and in developing methods to treat these ores. Included in the study was research on use of lignite from North Dakota as a part of a suggested process. The particular work done under Great Northern sponsorship has been completed, but research is being continued by others on an increasing scale. Meanwhile, experimental operation of pilot plants of the Hanna Mining Company



This new Texaco natural gasoline plant at Lignite, North Dakota, and a similar Hunt Oil facility at McGregor were completed in 1962. Production includes propane, butane and dry gas, and also sulphur from the Lignite plant.



and the Oliver Iron Mining Division of United States Steel continued, with indications that many technical problems are gradually being solved.

In addition, industrial development work includes acquisition of vacant industrial sites and maintaining files of information so that industries planning expansion can be given immediate assistance in locating their facilities.

During 1962, 90 industries located new facilities or expanded older plants on trackage served by Great Northern. Many of these were storage and distribution warehouses, but a number of new manufacturing plants were established to make greater use of natural resources and to reach the expanding markets of the Pacific Northwest.

Among the larger facilities completed or nearing production in 1962 was construction of Permanente Cement Company's \$10 million cement manufacturing plant near Helena, Montana.

In the paper, lumber and pulp field, St. Regis Paper Company opened a new plywood manufacturing plant at its J. Neils Lumber Division in Libby, Montana. The huge mill is contained in a single building with five acres under one roof. It can produce 5 million square feet of  $\frac{3}{8}$  inch plywood monthly.

Other developments using forest products included additional facilities at the Blandin Paper Company in Grand Rapids, Minnesota, where a \$15 million program to be completed in 1964 will double the present production of 65,000 tons per year. At Longview, Washington, Weyerhaeuser Company opened a \$10 million paperboard mill and International Paper Company has a new plant under construction for manufacture of milk containers. At Bellingham, Washington, Pacific Coast Paper Mills has a \$3 million expansion program underway.

In the agricultural field a number of new potato storage warehouses were built in the Red River Valley of Minnesota-North Dakota, and in the Wenatchee district of central Washington five large cold storage warehouses were built to store and pack apples and pears.

At Butte, Montana, Anaconda Company continued

work on a new \$30 million copper concentrator which reflects confidence in the long-range future of metal production at this long-established mining center. Spokane, Washington, Kaiser Aluminum & Chemical Corporation began a \$6 million program at its Trentwood rolling mill and at its Mead reduction works where primary aluminum is produced from aluminum ore.

Great Northern played a major role in transporting construction materials for two Minuteman missile complexes, one begun in 1961 and activated in late 1962 at Great Falls, Montana and the other more recently underway at Minot, North Dakota. In each instance the railway established coordinated rail-truck service and assumed responsibility for delivering much material from rail unloading points to widely-scattered individual missile sites. At Minot by the end of the year Great Northern had handled over 6,000 rail carloads of steel, cement, concrete aggregates and other construction materials.

A new missile base centered on Grand Forks, North Dakota has recently been announced, with work scheduled to start in 1963.



J. Neils Lumber Co., division of St. Regis Paper Co., opened its big new plywood plant at Libby, Montana in 1962. The five-acre plant will produce 60 million square feet of larch plywood annually.

This is the main building for Anaconda Company's huge new copper ore concentrating plant under construction at Butte, Montana. Initial production is scheduled for early summer of 1963.





# PERSONNEL

During 1962 the dollar total of wages paid to employes remained at almost the same level as in the previous year. This occurred only because the number of employes decreased, since the average hourly wage rate climbed to the highest level on record. There was some improvement in productivity in terms of units of work performed per dollar of wages paid. Such improvement has been the result of investment of many millions of dollars over a period of years in improved equipment and more permanent facilities which require less maintenance.

However, even though the amount paid directly as wages in 1962 remained close to the amount paid in 1961, total employment costs were higher as payments for fringe benefits continued the upward trend of recent years. On the chart below can be seen graphically the steady upward rise in wage rates and the increase in fringe benefits as a percentage of total compensation. It is regrettable that the number of job opportunities provided has decreased so sharply, but in the face of rising wage costs no other course was possible.

**WORK RULES STUDY** No other study in recent years of the working rules and labor agreements of railroad operating employes approaches in thoroughness the work done by the Presidential Railroad Commission. The Commission was under the chairmanship of Judge Samuel Rifkind and included five neutral public members and

representatives from both labor and management. It completed its fact-finding work in 1961 and presented its report to President Kennedy on February 28, 1962.

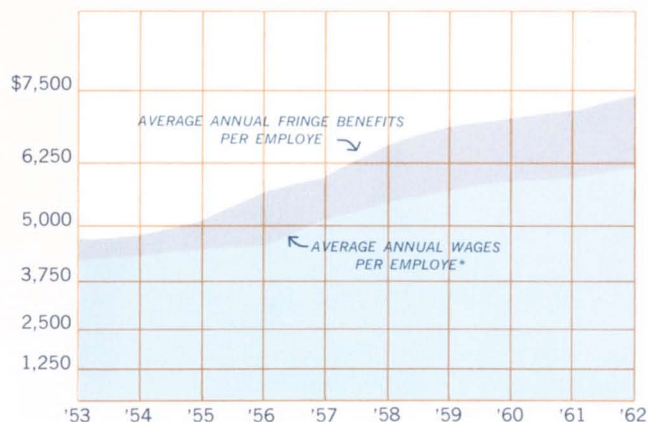
The Commission's recommendations provided for greater flexibility of operations, elimination of unproductive employes and pay adjustments which would have the net effect of increasing wages of the operating employee group by 2%.

Although management had strong reservations about some aspects of the report, it was accepted as providing a reasonable means of modernizing working rules. However, the five operating unions rejected the report and refused to use it as a basis for negotiation. Mediation was unsuccessful and arbitration under the Railway Labor Act was also rejected by the organizations. This exhausted the procedures of the Act, but under its provisions the railways were now free to put the modernized rules into effect, which they proposed to do in August, 1962. The unions asked a U. S. District Court to block this move, but decisions both here and in the Circuit Court of appeals were favorable to the railways. The Supreme Court upheld this position on March 4, 1963, and a major hurdle to work rules modernization was cleared.

**LABOR CONTRACTS** An important development in labor relations during 1962 was an agreement reached in June 1962 between the American Train Dispatchers

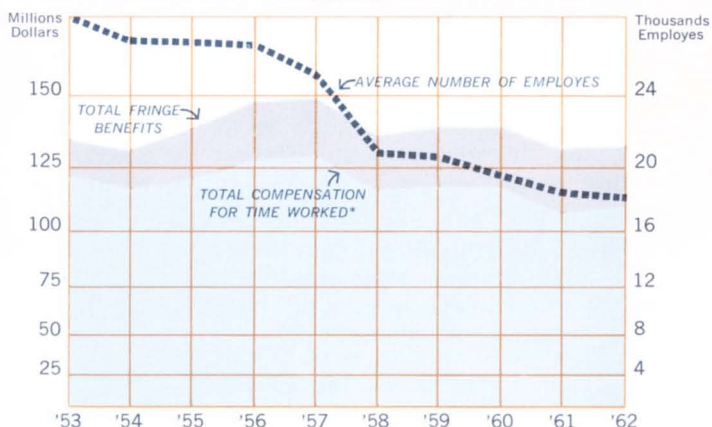
## TREND OF COMPENSATION AND EMPLOYMENT

PER EMPLOYEE



During the past 10 years, average annual wages per employee have increased steadily. Fringe benefits, however, have increased even more rapidly than wages.

TOTAL



A sharp cut in average number of employees in the 1953-1962 period kept total employment costs steady despite rising wage rates and fringe benefits.

\*Pay for vacation, sick leave and holidays included in fringe benefits.



Association and the five railroads whose operations will be unified if the Interstate Commerce Commission approves the merger proposal. The unification poses some complex problems of providing protection for employees who are adversely affected by the merger. Likewise, plans for operation of the merged company contemplate extensive changes which must be made if the benefits of the merger are to be realized.

The agreement signed with the Train Dispatchers Association is believed to be a pioneering advancement in employee protection both in scope and concept. It not only provides protection to those employees who need it, but also minimizes the effect of the merger on the whole group of dispatchers by offering retirement bonuses to those senior employees who are willing to anticipate their retirement and thereby create job vacancies for junior employees. Contingent on approval of the merger, the agreement will permit operation in conformity with the proposed operating plan for the new company and adjustment of dispatchers' seniority districts.

One other contract of importance was negotiated in 1962. In the 1961 annual report reference was made to a pending wage and working rules case instituted by the non-operating employees in September 1961. This case reached a Presidential Emergency Board which recommended that wages be increased by 10.28c per hour and suggested a minor change in working rules. Both the carriers and the employees accepted the recommendations of the Board.

**SAFETY AND RELATED MATTERS** During 1962 a significant reduction in the rate of employee injuries was attained. The ratio of deaths and injuries resulting in loss of time for one day or more was 6.65 per million man hours compared to 8.68 in 1961.

Great Northern also received awards from the National Safety Council and the Minnesota Safety Council for activity in the fields of public safety and industrial accident prevention.

The United States Public Health Service for the fifth successive year awarded a special citation for excellence in sanitation aboard dining cars. The employees of the Dining Car Department are particularly proud of their achievement in continuing to merit this award.

North Dakota crude oil from Williston Basin producing areas began flowing eastward at an initial rate of 22,000 barrels per day with the opening of the new Portal Pipeline on November 1, 1962.

**STOCKHOLDERS** On October 9, 1962, Great Northern was owned by 44,351 stockholders, a net increase of 2,557 during the year. Shares outstanding in the hands of the public at the end of 1962 totaled 6,073,029. The trend toward wider public ownership continued with a greater number of new holders added in 1962 than in any other recent year. Arrangements for acquisition of stock by payroll deduction through the Monthly Investment Plan increased the share of the company owned by employees.

Since May 1962 stockholder records have been maintained and dividend checks prepared on a new solid-state computer with greater economy and accuracy than had previously been possible. Quarterly dividends of 75c were paid on the first of March, May, August and November during the year.

**FUNDED DEBT** During 1962 Great Northern's funded debt was reduced to the lowest level in many years. At the end of the year the total was \$234.9 million compared with \$242.4 million at the end of 1961, a decrease of \$7.5 million. The reduction occurred because principal payments on existing equipment obligations of \$8.9 million were considerably greater than the \$1,395,000 trust sold at an interest cost of 4.1% in April. Of the total debt outstanding on December 31, 1962, \$9.0 million are





equipment obligations due in 1963. No mortgage bonds are due until 1973.

<i>As of December 31</i>	<i>General Mortgage Bonds (Millions)</i>	<i>Equipment Obligations (Millions)</i>	<i>Total Funded Debt (Millions)</i>
1958.....	\$200.4	\$69.9	\$270.7
1959.....	195.3	66.7	262.1
1960.....	178.7	67.3	246.0
1961.....	178.7	63.7	242.4
1962.....	178.7	56.2	234.9

In 1962 depreciation charges of \$15.4 million, which appear as maintenance expenses in the accounts, were more than enough to make the annual principal payments on existing equipment trusts and to make the 20% down payment on new equipment acquired during the year.

### EFFECT OF TAX LAWS ON NET INCOME

Federal income tax laws have for a number of years permitted rapid amortization of investment in certain facilities declared essential in the period during and after the Korean War. The tax benefit of this amortization expired in 1962 and there will be no offsetting income tax benefit for the booked depreciation on these facilities.

Federal tax laws in addition permit property acquired in 1954 and thereafter to be depreciated on an accelerated basis for tax purposes. However, our net income is determined in accordance with the regulations of the Interstate Commerce Commission which require that depreciation be reported to them on a straight line basis.

In 1962, the Treasury published new guide lines which permit use of much shorter lives in calculating depreciation deductions for tax purposes than are used in our reports to the public and to the Interstate Commerce Commission. Also in 1962, Congress enacted the 7%

investment credit. The effect of these two changes with the consequent reduction in income tax payments results in net income \$5 million greater than would have been reported if the tax requirements in effect in 1961 had not been modified in 1962.

These tax benefits may result in payment of higher taxes in the future, the timing and extent of which cannot be determined, and there has been some difference of opinion as to the appropriate accounting. The Interstate Commerce Commission has considered the problem and concluded that net income should be determined on the basis of tax expense in the current year regardless of the fact that a tax benefit derived from depreciation allowances in excess of book depreciation may be temporary.

We are continuing to use the accelerated depreciation methods authorized by Congress in 1954 and also will use the methods permitted in 1962. The effect of this tax accounting in recent years has been to reduce income taxes and to increase net income as follows:

<i>Year</i>	<i>Change in Net Income Account Amortization of Defense Facilities</i>		<i>Increase in Net Income Account Accelerated Depre- ciation, Guideline Lives and 7% Tax Credit</i>		<i>Combined Increase in Net Income</i>	
	<i>Amount (Millions)</i>	<i>Per Share</i>	<i>Amount (Millions)</i>	<i>Per Share</i>	<i>Amount (Millions)</i>	<i>Per Share</i>
1957	\$3.6-I	\$0.59-I	\$0.7-I	\$0.11-I	\$4.3-I	\$0.70-I
1958	3.0-I	0.49-I	0.9-I	0.15-I	3.9-I	0.64-I
1959	2.2-I	0.36-I	1.2-I	0.19-I	3.4-I	0.55-I
1960	1.4-I	0.22-I	1.5-I	0.24-I	2.9-I	0.46-I
1961	0.5-I	0.08-I	1.9-I	0.31-I	2.4-I	0.39-I
1962	0.5-D	0.08-D	7.0-I	1.15-I	6.5-I	1.07-I
1963 (est.)	1.3-D	0.22-D	7.8-I	1.29-I	6.5-I	1.07-I



GN's \$5 million reduction in inventory in 1962 is credited largely to a long-range program of applying electronic data processing to inventory control. Univac-produced catalogues, shown here, list 74,000 stock items used by railway.



These changes in tax regulations and the law were sponsored by the Administration to encourage the acquisition of new equipment and, accordingly, the increased flow of cash generated was a factor in substantially increasing the improvement program being undertaken for 1963.

**AFFILIATES AND SUBSIDIARIES** Great Northern received \$6.2 million in dividends from the Chicago, Burlington & Quincy Railroad Company, the same as in 1961. Of the Burlington's outstanding capital stock, 97.2% is owned in equal amounts by Great Northern and Northern Pacific. The Burlington earnings would have been approximately the same as in 1961 except for the recent tax changes described for Great Northern. Accordingly, its earnings were \$20.4 million in 1962 compared to \$14.4 million in the previous year.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, improved its showing by obtaining a slightly higher volume of traffic and closely controlling expenses. Net income rose from a deficit of \$89,000 in 1961 to a profit of \$717,000 in 1962. Great Northern received \$1.1 million in mortgage bond interest from the Spokane, Portland and Seattle Railway during the year.

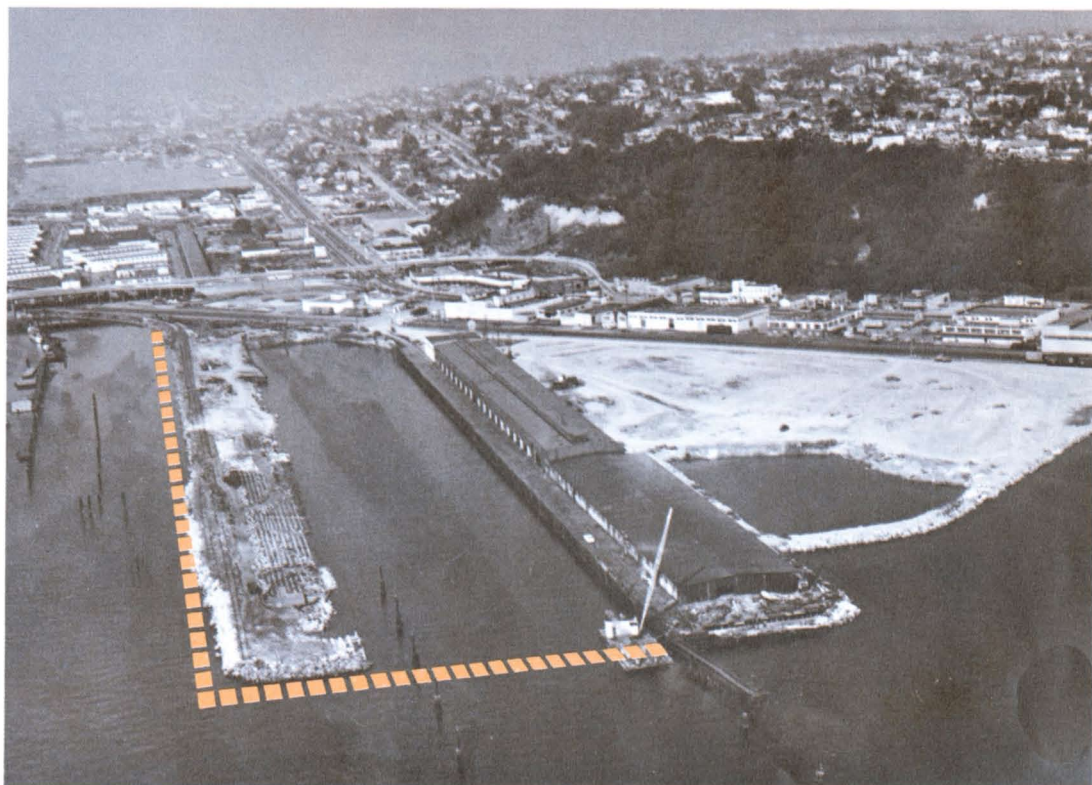
The Western Fruit Express Company, wholly owned by Great Northern, operates a fleet of refrigerator cars as part of a pool including Burlington Refrigerator Express and Fruit Growers Express. Western Fruit Express had

a successful year in 1962 with higher car mileage revenues. Net income, which was increased by lower income tax liability resulting from the new tax changes mentioned previously, was \$1,054,000 in 1962 compared to \$507,000 in 1961. The company paid dividends of \$510,000 to Great Northern in 1961 and in 1962. During the year, it purchased 135 insulated box cars and 20 refrigerated trailers for piggyback service. In 1963 it plans to purchase 100 new mechanically refrigerated cars for use in handling frozen foods and to replace ice-refrigerated cars which are obsolescent.

In 1962 Portal Pipe Line Company, an important new affiliate of Great Northern, was organized and built a 366 mile crude oil pipe line from Lignite, North Dakota to Clearbrook, Minnesota. With increased development of North Dakota oil fields, steps were taken to advance our long-range plans for complete pipeline movement of crude oil from western North Dakota. Great Northern joined with Hunt Oil Company and Northwestern Refining Company in organizing Portal in which Great Northern has a 45% interest. Portal also acquired four field gathering systems formerly owned by Northwestern. As part of the overall operation, Portal acquired Great Northern Pipe Line Company which had been in successful operation since late 1960 from oil fields north of Minot to a transshipping facility at that point where tank cars were loaded for movement to market by rail.

New construction proceeded during the summer of 1962 and the line was opened on schedule November 1, 1962

Land fill in the area outlined in this photo will provide new waterfront industrial sites in Seattle. Scene of this Great Northern development is the railway's historic Piers 88 and 89, at Smith Cove on Puget Sound.





with first delivery of crude oil at Clearbrook. Connections are made here with Lakehead Pipe Line, permitting deliveries as far east as Buffalo, New York, and with Minnesota Pipe Line through which deliveries to the Twin Cities area are made.

**LEGISLATION** Following the report of Secretary of Commerce Hodges mentioned in the 1961 annual report, President Kennedy in April, 1962 sent a special message to Congress in respect to basic transportation problems. Included in the President's recommendations was legislation to eliminate the authority of the Interstate Commerce Commission over minimum rates for transporting agricultural and bulk commodities, thus extending to all surface carriers the freedom from minimum rate regulation now enjoyed by motor and water carriers of such commodities. Other important recommendations were proposals for the imposition of adequate charges for the commercial use of publicly provided transportation facilities and repeal of the Federal excise tax on passenger fares.

Bills to give effect to the President's recommendations were introduced in both the Senate and the House. The passenger excise tax was finally repealed effective November 16, 1962, except that a 5% tax on airline fares was retained as a user charge.

Extensive hearings were held on the President's other recommendations, but no action was taken by either the Senate or the House Committee. In general, the bills were supported by the Administration, railroads and shippers. Witnesses representing motor and water carriers testified in opposition to some parts of the program, including the proposal to eliminate minimum rate regulation by the Interstate Commerce Commission.

The President has renewed his recommendations in his State of the Union address and budget message to the new Congress.

A number of bills were introduced to declare a moratorium on railroad mergers, but none progressed beyond the subcommittee stage.

**LITIGATION** In the 1961 and earlier reports, the Divisions cases, the Grain case and the Western Pacific control case were mentioned.

There are two Divisions cases. One involves the apportionment of through freight revenues as between the eastern, midwestern and transcontinental railroads. Great Northern is a party to this case as one of the transcontinental railroads. This case has been argued before the Interstate Commerce Commission and remains undecided. In the companion case, the principal parties are the eastern and midwestern roads and the issue again is the proper apportionment of through freight revenues. Great Northern is involved as to its traffic east of Montana. A decision has been rendered by the Interstate Commerce Commission which is regarded as unsatisfactory by Great Northern, and with certain other lines Great Northern has instituted a suit in the Federal District Court for Colorado to have the Commission's decision set aside.

The Grain case brought by southeastern interests for changes in the grain rate structure, which has been consolidated with other cases involving grain rates, is still pending before the Interstate Commerce Commission upon exceptions taken to the recommended report of the hearing officer.

The Western Pacific control case is still awaiting an Examiner's report. This case concerns rival applications by the Southern Pacific Company and the Santa Fe Railway, in which Great Northern intervened in support of the Santa Fe to protect the movement of traffic via the Bieber route.

The Interstate Commerce Commission in July instituted a broad-scale investigation into piggyback operations, noting that marked expansion and change have occurred in recent years in this class of traffic and concluding that a thorough review of the Commission's applicable policies and rules is in order. Believing that the present ground rules are economically sound for both shipper and carrier, Great Northern is actively participating in these proceedings to insure that, if possible, the present promising growth of piggybacking is not stifled by over-regulation.

As was the case last year, the most important matter of litigation active in 1962 was the proposed unification which is covered separately in this report.



Somers Lumber  
Division of the  
Glacier Park Company,  
a GN subsidiary,  
operates a tree farm  
and this tie-treating  
plant at Somers,  
Montana, providing  
a large share of  
the treated crossties  
used by the railway.



# GREAT NORTHERN RAILWAY COMPANY

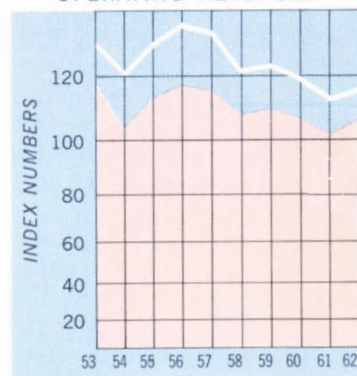
## CHANGE IN WORKING CAPITAL

January 1 to December 31, 1962

BALANCE AT BEGINNING OF YEAR.....		\$38,736,729
SOURCES OF WORKING CAPITAL:		
Net income.....	\$25,018,986	
Depreciation and other non-cash income items.....	16,804,280	
Sale of property, investments and other assets.....	4,012,770	
Proceeds from equipment financing.....	<u>1,395,000</u>	<u>47,231,036</u>
		\$85,967,765
APPLICATIONS OF WORKING CAPITAL:		
Additions and betterments to property and equipment.....	\$10,354,301	
Reduction of long term debt.....	8,903,594	
Dividends accrued (\$4,555,349 payable in 1963).....	22,776,124	
Other—net.....	<u>81,418</u>	<u>42,115,437</u>
BALANCE AT END OF YEAR.....		<u>\$43,852,328</u>
NET INCREASE IN WORKING CAPITAL.....		<u>\$ 5,115,599</u>

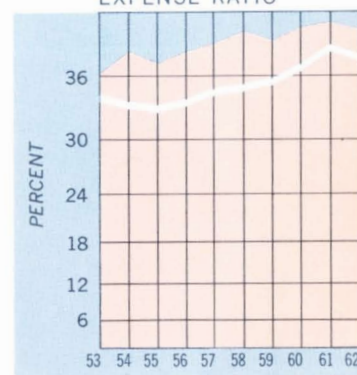
A supplementary report containing additional operating and financial statistics may be obtained upon request to the Secretary of the Company at St. Paul 1, Minnesota.

OPERATING REVENUES



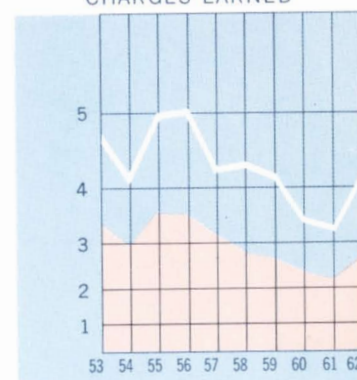
In 1962 both Great Northern and the railroad industry reversed the declining revenues trend of the preceding two years, with Great Northern maintaining its position in the growing economy of the Northwest.

TRANSPORTATION EXPENSE RATIO

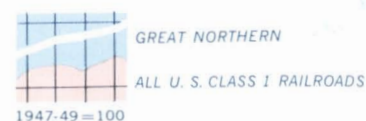


Favorable physical characteristics of GN's main lines have permitted a ratio of transportation expense to revenues well below the industry average. Greater traffic volume in 1962 helped reverse an upward trend which began in 1955.

TIMES FIXED CHARGES EARNED



Improved net income in 1962 provided the best fixed charge coverage in several years, at a level well above that of the industry. There was a further reduction in long-term debt during the year.



1962 Class I Railroad statistics are preliminary figures.



# GREAT NORTHERN RAILWAY COMPANY

## STATEMENT OF INCOME

Year ended December 31, 1962 with comparative figures for 1961

	1962	1961
OPERATING REVENUES:		
Freight.....	\$209,222,917	\$204,862,561
Passenger, mail and express.....	21,993,269	20,175,746
Other.....	7,724,237	7,913,611
Total operating revenues.....	<u>238,940,423</u>	<u>232,951,918</u>
OPERATING EXPENSES:		
Transportation.....	88,359,880	87,751,336
Maintenance of way and structures.....	37,906,335	36,406,979
Maintenance of equipment.....	42,938,175	42,736,255
Traffic, general and other.....	18,604,376	18,172,335
Total operating expenses.....	<u>187,808,766</u>	<u>185,066,905</u>
NET REVENUE FROM RAILWAY OPERATIONS.....	<u>51,131,657</u>	<u>47,885,013</u>
TAXES AND RENTS:		
Federal income tax (note 1) less adjustment of prior years' provisions of \$500,000 in 1962 and \$700,000 in 1961.....	3,825,000	5,775,000
Payroll taxes.....	9,886,778	9,465,644
Property taxes.....	8,005,507	8,373,657
Other taxes.....	3,963,084	4,082,315
Equipment and joint facility rents—net.....	2,278,164	3,425,996
Total taxes and rents.....	<u>27,958,533</u>	<u>31,122,612</u>
NET RAILWAY OPERATING INCOME.....	<u>23,173,124</u>	<u>16,762,401</u>
OTHER INCOME:		
Dividends.....	6,941,631	6,822,316
Interest.....	2,208,216	2,252,189
Rent and miscellaneous income—net.....	680,215	945,353
Total other income.....	<u>9,830,062</u>	<u>10,019,858</u>
	33,003,186	26,782,259
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT.....	7,984,200	8,149,839
NET INCOME.....	<u>\$ 25,018,986</u>	<u>\$ 18,632,420</u>
Per share of common stock (including \$1.07 in 1962 and \$.36 in 1961 resulting from reduction in income taxes as described in note 1)	<u>\$ 4.12</u>	<u>\$ 3.07</u>

## STATEMENT OF RETAINED INCOME

RETAINED INCOME AT BEGINNING OF YEAR.....	\$363,069,348	\$369,992,061
NET INCOME FOR YEAR.....	25,018,986	18,632,420
	<u>388,088,334</u>	<u>388,624,481</u>
DEDUCT:		
Dividends declared—\$3.75 a share, including 75c payable in 1963 (\$3.00 in 1961).....	22,776,124	18,236,342
Miscellaneous charges (credits):		
Reserve for adjustment of securities (no longer required) restored to retained income.....	(6,318,353)	—
Acquisition adjustment credits (\$175,339) and donations and grants (\$639,896) applicable to retired property, etc. (note 2).....	(815,235)	—
Provision for unfunded past service pension costs (less adjustment in 1962), less related income taxes.....	(411,315)	6,843,315
Past service pension costs, and loss on obsolete property retirements, less related income taxes....	—	475,476
	<u>15,231,221</u>	<u>25,555,133</u>
RETAINED INCOME AT END OF YEAR.....	<u>\$372,857,113</u>	<u>\$363,069,348</u>

See accompanying notes to financial statements.



ASSETS	1962	1961
CURRENT ASSETS:		
Cash and temporary cash investments.....	\$ 56,689,363	\$ 45,251,581
Accounts receivable.....	16,760,227	15,621,158
Material and supplies, at cost.....	17,361,225	21,728,286
Other current assets.....	537,927	506,962
Total current assets.....	<u>91,348,742</u>	<u>83,107,987</u>
CAPITAL AND OTHER SPECIAL FUNDS.....	<u>2,351,610</u>	<u>2,480,263</u>
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies (note 3).....	167,970,089	170,485,880
Other companies.....	5,906,882	5,312,831
Reserve for adjustment of securities (restored to retained income in 1962).....	—	(6,318,353)
Total investments.....	<u>173,876,971</u>	<u>169,480,358</u>
PROPERTIES (note 2):		
Road and roadway structures, etc.....	549,658,648	558,010,578
Equipment.....	330,577,269	329,831,064
Acquisition adjustment and donations and grants.....	—	(11,384,357)
Total transportation property.....	880,235,917	876,457,285
Allowance for depreciation and amortization.....	(233,113,069)	(222,095,665)
Net transportation property.....	647,122,848	654,361,620
Non-operating property.....	12,828,565	12,813,384
Net properties.....	<u>659,951,413</u>	<u>667,175,004</u>
OTHER ASSETS AND DEFERRED CHARGES.....	14,547,449	15,860,975
TOTAL ASSETS.....	<u>\$942,076,185</u>	<u>\$938,104,587</u>

See accompanying notes to financial statements.



LIABILITIES AND SHAREHOLDERS' EQUITY			1962	1961
CURRENT LIABILITIES:				
Accounts payable.....			\$ 14,219,627	\$ 13,535,492
Accrued payroll and vacation pay.....			9,765,144	9,702,256
Accrued taxes.....			13,821,975	15,595,317
Dividends payable February 1, 1963 (declared December 14, 1962).....			4,555,349	—
Other current liabilities.....			5,134,319	5,538,193
Total current liabilities (excluding debt due within one year).....			<u>47,496,414</u>	<u>44,371,258</u>
DEBT DUE WITHIN ONE YEAR.....			<u>8,702,318</u>	<u>8,619,594</u>
LONG-TERM DEBT:				
General mortgage gold bonds:				
DUE	RATE	AMOUNT		
1973	5%	\$14,154,900		
1976	4½%	14,508,000		
1982	2½%	40,000,000		
1990	3⅛%	37,500,000		
2000	3⅛%	37,500,000		
2010	2⅝%	<u>35,000,000</u>	178,662,900	178,662,900
Equipment and other obligations, 2% to 5%.....			47,525,318	55,116,636
Total long-term debt.....			<u>226,188,218</u>	<u>233,779,536</u>
PROVISION FOR UNFUNDED PAST SERVICE PENSION COSTS.....			13,400,000	14,256,906
RESERVES AND OTHER LIABILITIES.....			4,333,597	4,156,019
Total liabilities.....			<u>300,120,547</u>	<u>305,183,313</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— 135,887 shares (133,647 shares in 1961) (note 4).....			6,134,304	6,035,494
Common stock outstanding— 6,073,070 shares (6,075,310 shares in 1961).....			267,893,846	267,992,656
Capital surplus (note 4).....			1,204,679	1,859,270
Retained income (note 1), including \$1,125,000 in each year appropriated for sinking funds.....			372,857,113	363,069,348
Total shareholders' equity.....			<u>641,955,638</u>	<u>632,921,274</u>
CONTINGENT LIABILITIES (note 5)				
Total liabilities and shareholders' equity.....			<u>\$942,076,185</u>	<u>\$938,104,587</u>



# GREAT NORTHERN RAILWAY COMPANY

## NOTES TO FINANCIAL STATEMENTS

December 31, 1962

1. In the accompanying financial statements, Federal income taxes have been reduced and net income correspondingly increased by approximately \$6,500,000 in 1962 (\$2,200,000 in 1961) through acceleration of depreciation and amortization deductions for income tax purposes and in 1962 by application of an investment credit against current income taxes. The corresponding aggregate reduction in Federal income taxes for the current and prior years included in retained income at December 31, 1962 amounted to \$40,000,000 (\$33,500,000 at December 31, 1961).

2. The transportation property is stated at cost plus additions and betterments, less retirements, depreciation and amortization. Consistent with the practice generally followed by Class I railroads, the Company has not provided for depreciation prior to 1943 of road property held at that date.

In 1962 in accordance with technical accounting changes prescribed by the Interstate Commerce Commission, the Company eliminated acquisition adjustments and donations and grants aggregating \$11,384,357 previously carried as reduction of road property and equipment. Net transportation property was not materially affected by this elimination because of this amount \$11,201,534 was applied directly against the related property accounts or added to the reserve for depreciation. Acquisition adjustment credits relating to non-depreciable property retired and mergers of minor subsidiaries in prior years in the net amount of \$175,339 have been added to retained income.

3. Investments in affiliated companies include \$109,504,385 pledged under general gold bond mortgages and \$20,000,000 restricted as to disposition under escrow agreement. Of the investments in affiliated companies, \$10,232,734 represents the cost of stock held in wholly-owned subsidiary companies. The Company's equity in the net assets of such unconsolidated subsidiaries at December 31, 1962 (as shown by their unaudited financial statements) amounted to \$24,263,127. The Company's equity in net income of unconsolidated sub-

sidaries amounted to \$1,517,583 in 1962 (\$1,267,279 in 1961) of which \$525,000 was received during 1962 as dividend income (\$570,000 in 1961).

4. Treasury stock includes 111,577 shares at December 31, 1962 reserved for officer and key employee options at prices ranging from \$27 to \$58 a share. During the year ended December 31, 1962, the Company acquired 5,400 shares and reissued 3,160 shares of treasury stock.

Capital surplus has been increased by the excess of stated value over cost of stock repurchased, \$17,585, and reduced by the excess of stated value over proceeds of stock issued upon exercise of stock options, \$32,280. Capital surplus attributable to prior years' retirements of donated properties, \$639,896, was transferred to retained income in 1962.

5. At December 31, 1962, the Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately \$13,300,000. Also, the Company is contingently liable as guarantor along with other railroads for its proportion (approximately 2.7%), and in addition its proportionate share of any contingent obligations not met by other railroad participants, of the obligations of Trailer Train Company aggregating approximately \$112,000,000.

The Company, along with another company with which it shares majority ownership of the stock of Portal Pipe Line Company, is a party to a completion and through-put agreement with the pipe line company providing that the stockholding companies severally should make certain shipments of petroleum through the pipe line, or in lieu thereof under certain conditions should advance payments for such transportation in amounts sufficient to enable the pipe line company, over a term of twenty years, to discharge obligations of the pipe line company amounting to \$13,200,000 at December 31, 1962.

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, 1962, and the related statements 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, except that no provision has been made

for the deferred income taxes referred to in note 1 to the financial statements, the accompanying balance sheet and statements of income and retained income present fairly the financial position of Great Northern Railway Company at December 31, 1962 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

St. Paul, Minnesota  
February 8, 1963

*Peat, Marwick, Mitchell Co.*





This 74th Annual Report would not be complete without at least a brief recounting of an event of unusual historic significance which occurred 100 years ago in the Twin Cities of Minnesota.

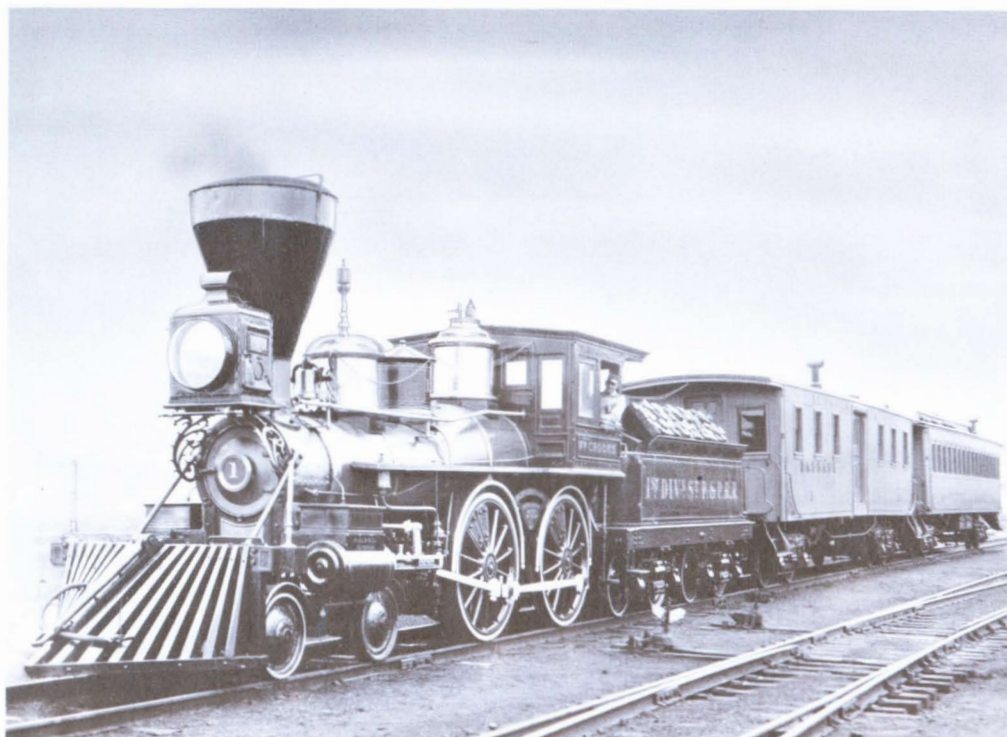
Of course, no one thought of them as "twins" then. St. Paul, at the head of navigation on the Mississippi, was a bustling outpost of American civilization. Its upstream neighbor, the Village of St. Anthony, scarcely hinted at holding the seeds of a metropolitan Minneapolis.

A-building between the pioneer communities a century ago was a railroad, ambitiously but prophetically named the St. Paul & Pacific. Here on the afternoon of June 28, 1862, the little wood-burning locomotive William Crooks, pulling two cars filled with excited passengers, chuffed up out of the river valley at St. Paul and across the 10 miles of prairie to St. Anthony. Thus did this sparkling summer day see the beginning of rail service in Minnesota and much of the Northwest.

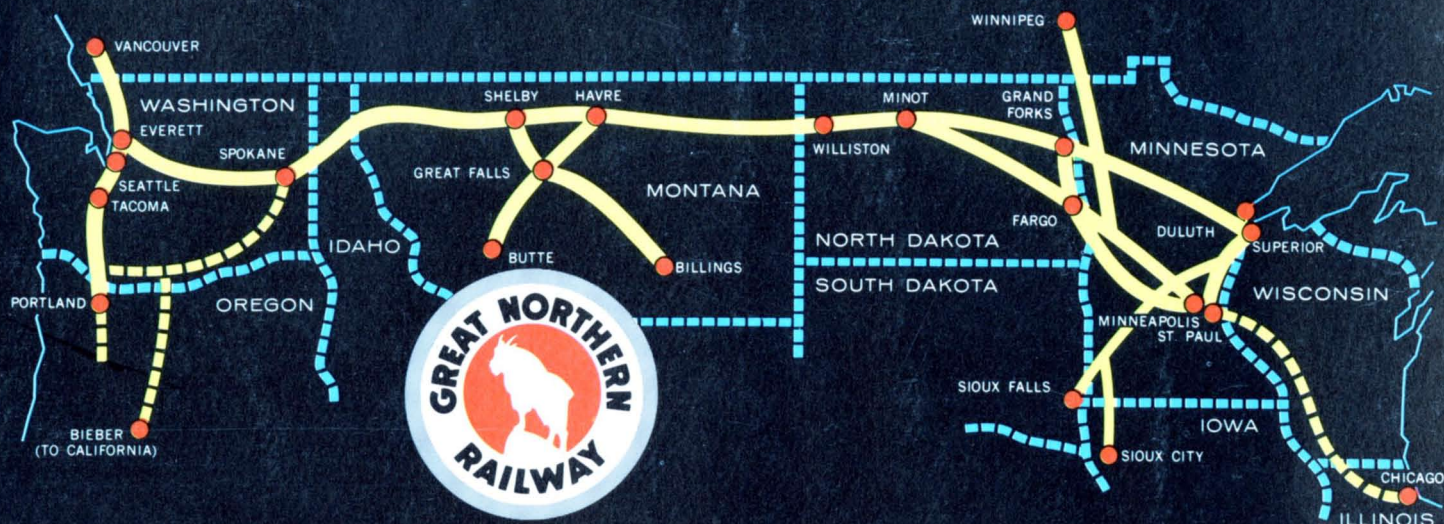
Over the years the 10 miles of rail grew to more than 8,000, serving 10 states and two Canadian provinces—from the head of the Great Lakes to the salt water ports of the Pacific North Coast. The St. Paul & Pacific of course grew to become the Great Northern.

But one thing remained unchanged for 100 years: the William Crooks (below) was always "Little No. 1" on the railway's locomotive roster.

Then on June 28, 1962, in fitting commemoration of its Centennial of service, the Great Northern presented the William Crooks to the Minnesota Historical Society, "to have and to hold forever for the enjoyment of all." The colorful engine may be seen on exhibit in the St. Paul Union Depot, a permanent reminder of the illustrious role of the Iron Horse in the building of the West.







GREAT NORTHERN RAILWAY SAINT PAUL, MINNESOTA