

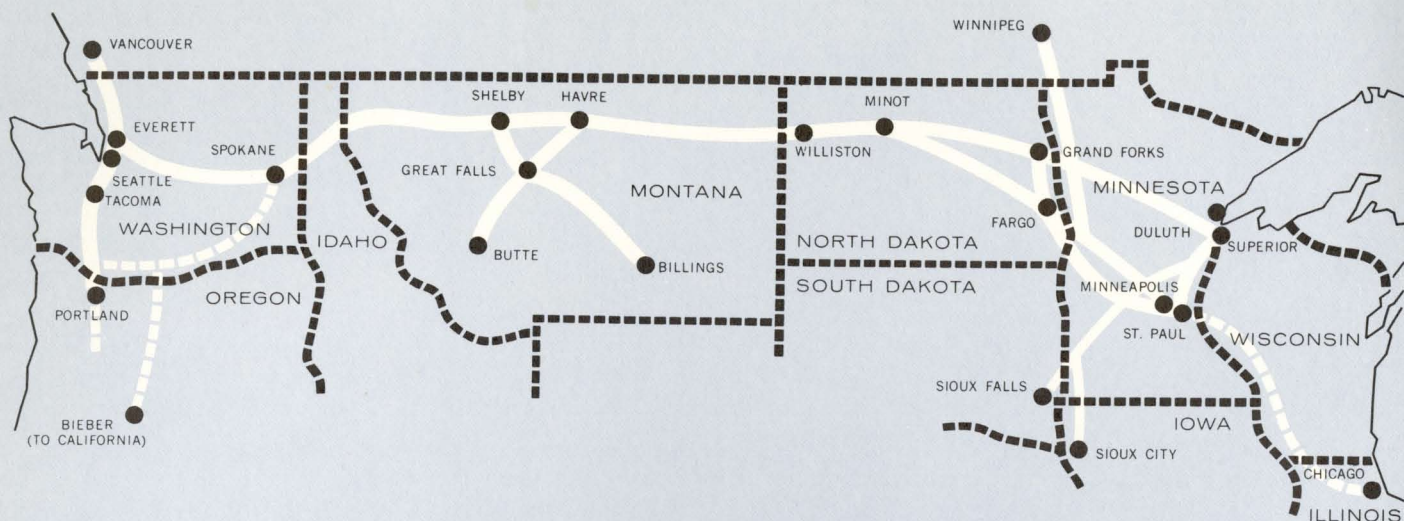
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GREAT NORTHERN RAILWAY

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75TH ANNUAL REPORT 1963





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New York

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Personnel Department, St. Paul

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TRANSFER AGENTS

FINANCIAL OFFICE
39 Broadway, New York, N.Y. 10006
(Effective May 1, 1964 this office will be
relocated at 40 Wall Street, New York)

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GREAT NORTHERN RAILWAY COMPANY

SEVENTY-FIFTH ANNUAL
REPORT FOR THE YEAR
ENDED DECEMBER 31, 1963

Our cover photo captures some of the tang of a sparkling September morning in Wenatchee, Washington. Warm Fall days and crisp nights were putting the final blush of perfection on the Apple Capital's treasure when GN No. 82—powered by four new GP-30's—paused briefly for a pick-up on its fast run from Seattle to the Twin Cities. On the westbound track another hustling freight train highballed out of town, soon to penetrate the high Cascades and there begin the final long descent to the salt water ports on Puget Sound.



GENERAL OFFICES:
GREAT NORTHERN BUILDING,
ST. PAUL, MINNESOTA 55101

HIGHLIGHTS

1963

1962

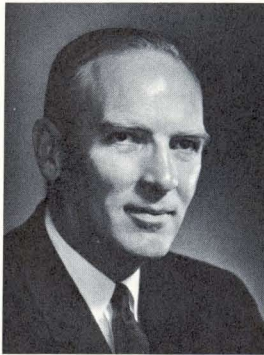
FINANCIAL DATA

Net Income.....	\$ 29,273,689	\$ 25,018,986
Per Share.....	\$4.80	\$4.12
Dividends Paid.....	\$ 18,242,929	\$ 18,220,775
Per Share.....	\$3.00	\$3.00
Shareholders.....	44,651	44,351
Operating Revenues.....	\$242,810,448	\$238,940,423
Operating Expenses.....	186,364,676	187,808,766
Federal Income Taxes.....	4,990,415	3,825,000
Available for Fixed Charges.....	37,227,130	33,004,806
Fixed Charges.....	\$ 7,953,441	\$ 7,985,820
Times Fixed Charges Earned.....	4.68	4.13
Return on Property Investment.....	3.97%	3.36%
Cash and Temporary Investments Dec. 31.....	\$ 73,716,503	\$ 56,689,363
Working Capital—Dec. 31.....	55,097,532	43,852,328
Funded Debt—Dec. 31.....	\$237,754,218	\$234,890,536

OPERATING AND WAGE STATISTICS

Miles of Road Operated.....	8,262	8,270
Revenue Net Ton Miles (millions).....	16,762	16,137
Revenue Passenger Miles (millions).....	412	503
Ratios to Revenues:		
Net Income.....	12.1%	10.5%
Transportation Expenses.....	37.0%	37.0%
Maintenance Expenses.....	32.2%	33.8%
All Operating Expenses.....	76.8%	78.6%
Employees.....	17,439	18,128
Wages Paid.....	\$115,335,187	\$117,973,630
Employment Costs (Payroll plus Benefits, Payroll Taxes, etc.).....	\$128,338,262	\$131,263,668

To the Shareholders:



Great Northern had a more satisfactory operation in 1963 than in any of the past several years. Net income of \$29.3 million increased \$4.3 million over that of 1962. In both years Federal income taxes had a substantial effect upon increased net income, as explained in

the text of the report. Dividends of \$3.00 per share were continued in 1963.

The volume of freight traffic in 1963 was greater than that of 1962 by 3.9%, with increased traffic in several commodities, the principal one being grain. In most of our territory the 1963 crop was bountiful and moved in substantial volume, with 245 million bushels still in storage at the beginning of 1964.

Other 1963 crops such as apples, sugar beets and potatoes were also abundant, much of them being carried over for movement in 1964.

Improvement in the general tone of business activity stimulated traffic in such things as lumber, aluminum ore and iron ore, as well as in some manufactured products. These were offset in part by a reduction in volume of some other commodities.

Freight revenues in 1963 increased by \$6.1 million over those of 1962. Passenger revenues, however, decreased by \$2.1 million, partly because of the non-recurring heavy travel to the Seattle World's Fair in 1962 and partly because of tour parties canceling arrangements for summer trips in the face of a rail strike threat.

Operating expenses decreased by \$1.4 million and payroll taxes by \$245,000 as a result of tighter cost control. Operating personnel deserve a great deal of credit for this performance.

The rate of return on investment, while better than it has been, was less than 4%. This is inadequate for the modernization and improvement programs needed in this competitive era.

Affiliated companies matched or bettered their 1962 performances. The Spokane, Portland and Seattle Railway Company (of which Great Northern owns 50%) improved its showing very materially.

Portal Pipe Line Company made a good showing in its first full year of operation.

Great Northern's cash position, which improved \$17.0 million during the year, is in better relation to the current scale of operation than it was a year ago. Working capital also was improved substantially during the year.

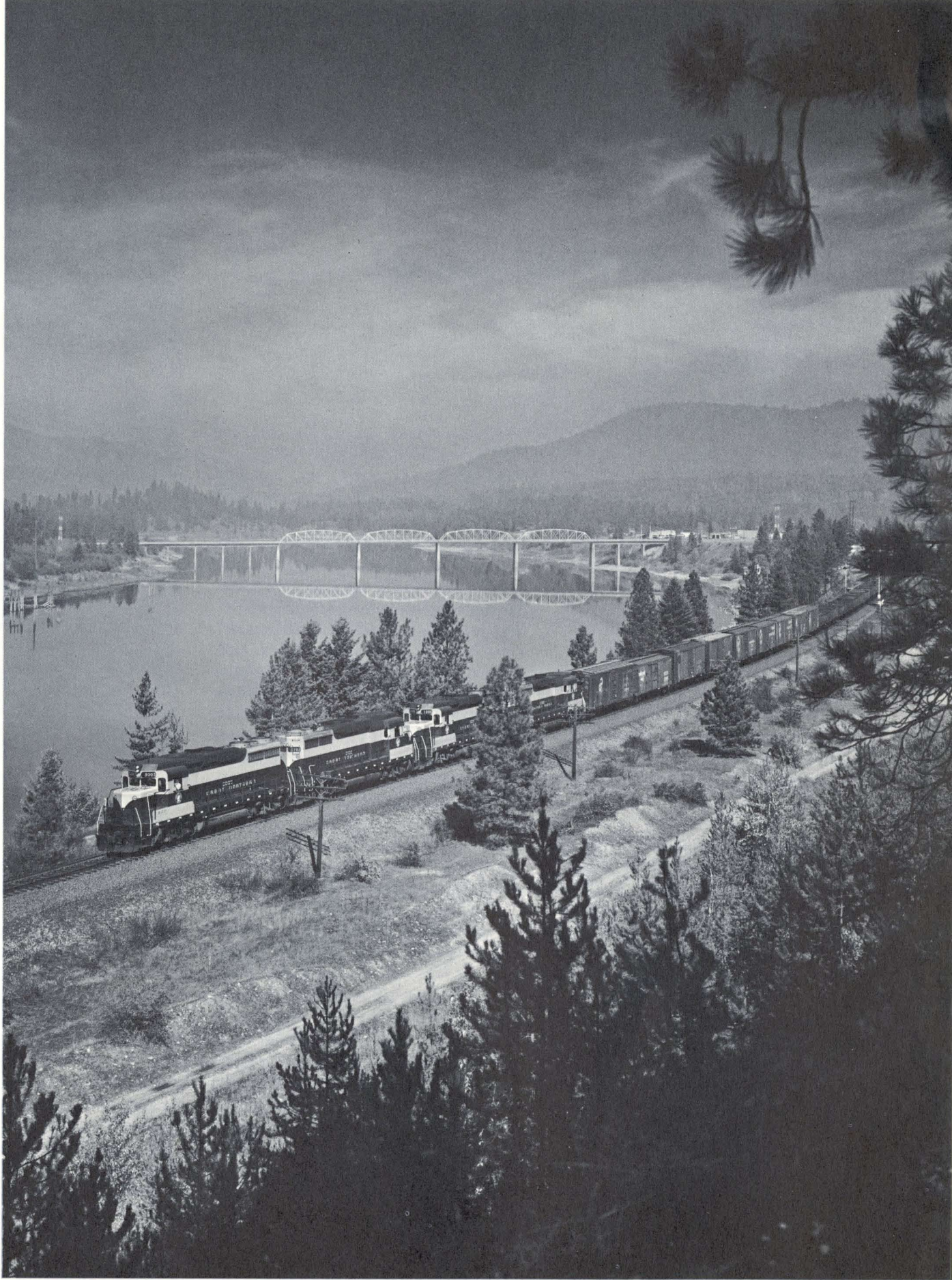
Problems of major significance that for the most part are industry-wide were not progressed in a suitable manner during 1963. In the proposed unification with the Northern Pacific and affiliates which are owned in common, briefs were filed on January 4, 1963. The Interstate Commerce Commission examiner has not as yet issued his report and recommendations. In the work rules case, arbitration of two of the issues required by emergency legislation enacted in August was challenged in the courts. The remaining issues in this case are still in negotiation. The legislative program based on recommendations made by President Kennedy in April, 1962 was lost in consideration of other urgent matters by the Congress. The national car supply remains as a major problem, although strenuous efforts are being made to find satisfactory solutions. The transcontinental divisions case, in litigation for years, was decided in favor of the Eastern lines by the Interstate Commerce Commission, but the decision has been appealed to the courts by the transcontinental lines.

Business prospects for 1964 in Great Northern territory seem favorable on the whole. However, we depend to a large extent upon successful harvests for prosperity, and the dry Fall of 1963 left a deficiency in moisture in much of our area. Timely rainfall in sufficient quantity during the growing season has in the past offset such moisture deficiencies, and we hope this will occur this year.

During 1964 we expect to complete a third phase of an important change in line on the west slope of the Cascade Mountains in Washington. The program, designed to eliminate a troublesome piece of railroad, will permit greater reliability of service and some reduction in schedules.

The operations in 1963 would not have been possible without the excellent work of the officers and employees throughout the year. To them I give sincere thanks and tribute.

PRESIDENT



Nine thousand "horses"—2250 HP per unit—speed this Great Northern freight train along the Pend Oreille River in Washington State. Powerful new diesels like these help maintain heavy tonnage trains on faster schedules.

FINANCIAL REVIEW—1963

The year 1963 began with the national economy at a relatively high level. Although there was widespread feeling that business activity might trend downward during the latter part of the year, this did not occur. Great Northern experienced a stable first half, followed by an improvement in traffic during the second half which brought results well above the level of the year before and of the average of the last five years. All important classes of traffic were strong as the year ended, and have continued at favorable levels into 1964.

NET INCOME

Net income of \$29.3 million, equal to \$4.80 per share, was earned in 1963, compared with \$25.0 million or \$4.12 per share in 1962.

The increase was due to improved operating results, offset in part by higher Federal income tax payments. However, \$1.20 of net income per share reflects income tax benefits from the use of depreciation methods authorized by law and Treasury regulations and the 7% investment tax credit enacted by Congress in 1962. Some of these benefits may have to be repaid 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 1963, with quarterly payments of 75c per share.

Operating revenues for 1963 of \$242.8

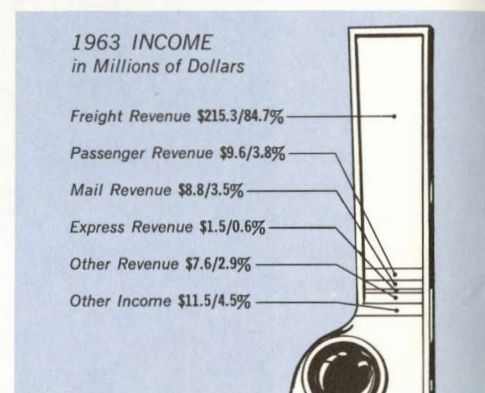
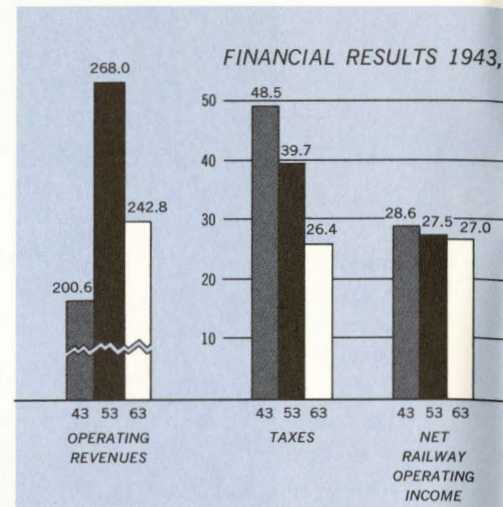
million were \$3.9 million more than in 1962. This increase of 1.6% in revenue was handled with close attention to costs, which declined 0.8%. Due to higher Federal income taxes, accruals for taxes in 1963 were \$714,000 higher than in 1962. The net results of operations improved \$3.8 million or 16.5%.

Fixed charges were earned 4.68 times after taxes, the best coverage since 1956. "Other Income," consisting of dividends and interest from investments, continued to be an important source of financial strength. The amount received was \$11.5 million, and more than covered fixed charges.

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 affiliates are Chicago, Burlington & Quincy Railroad Company (48.6% owned), Spokane, Portland and Seattle Railway Company (50% owned), Western Fruit Express Company (100% owned), Portal Pipe Line Company (43.75% owned) and several minor companies. During 1963 this equity amounted to \$6.6 million or \$1.09 per share of Great Northern stock.

FINANCIAL POSITION AT END OF YEAR

During 1963 cash and temporary investments increased \$17.0 million, from \$56.7 million at the beginning of the year, to \$73.7 million at the end.

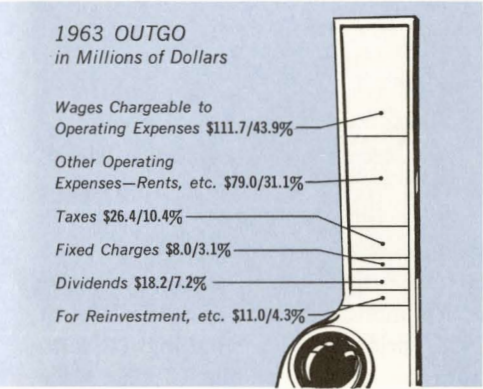
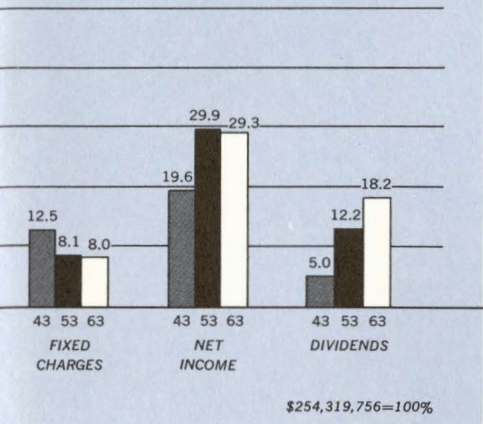


Current assets were \$107.0 million and current liabilities amounted to \$51.9 million. The level of net working capital improved during the year from \$43.9 million to \$55.1 million, an increase of 25.6%. Funded debt at the end of 1963 was \$237.8 million, an increase of \$2.9 million during the year.

REPORT ON UNIFICATION

During 1963 there were relatively few events directly affecting the proposed unification of the Great Northern, Northern Pacific, Burlington, Spokane, Portland and Seattle and Pacific Coast railways into a single modern system. The hearings held by the Interstate Commerce Commission closed in July, 1962. Subsequently, briefs were filed by the parties concerned on January 4, 1963. Since that time Examiner Murphy, who heard the case, has been preparing his

1953, 1963 in Millions of Dollars



report and recommendations to the Commission. Following its publication there will be an opportunity for filing of exceptions, and presentation of oral arguments to the Commission, before a final decision is reached.

In the meantime, personnel of the merging lines have carried on detailed planning so that on approval an orderly and quick integration of the separate properties into a single, modern system can be accomplished. The need for unification has been felt increasingly during the past year as competitive pressures from other modes of transportation became more severe, and the need for more efficient utilization of equipment was shown in two periods of car shortage. Faster handling of freight, more dependable service and improved car supply resulting from unification are public benefits which should be realized.

REPORT ON OPERATIONS

WITH freight traffic volume improving and with expenses stable, operating earnings for each of the four quarters in 1963 were better than the corresponding quarter in 1962.

The property is in excellent condition. Programs of maintenance on track and equipment were carried out as planned, and a very much larger program of capital expenditures on new equipment was completed. As a result of more business being handled with greater efficiency, the operating ratio was reduced to the lowest level since 1958. Traffic and expense trends continued favorable as the year ended.

OPERATING REVENUES

Sources of operating revenues were:

Source of Revenue	1963	1962	Per Cent Change
Freight.....	\$215.3	\$209.2	2.9-I
Passenger.....	9.6	11.7	17.6-D
Mail and express....	10.4	10.3	0.5-I
All other operating..	7.5	7.7	2.8-D
Total.....	\$242.8	\$238.9	1.6-I

FREIGHT REVENUE

Some of the diversified sources of revenue are dependent upon the level of general activity, while others of an agricultural nature are more dependent upon weather conditions. Fortunately, in 1963 practically all important commodities contributed to the increase in revenue, as shown in the following table:

Commodity	1963 Revenues (Millions)	1962 Revenues (Millions)	Per Cent Change in 1963
Grain and grain products.....	\$53.5	\$47.1	13.6-I
Lumber and wood products.....	40.0	39.2	1.9-I
Iron ore, including dock charges	18.7	18.2	2.8-I
Paper.....	13.0	13.5	4.1-D
Aluminum ore and products....	9.4	8.7	8.1-I
Forwarder traffic and less-than-carload traffic...	9.4	10.1	7.2-D
Crude petroleum, petroleum products and asphalt.....	6.7	8.4	20.1-D
Automobiles and trucks.....	5.7	5.2	9.9-I
Coal and coke...	4.9	5.2	4.5-D
Iron and steel products.....	4.7	5.9	19.2-D
Apples.....	4.4	2.8	59.3-I

At the beginning of 1963, there were 261 million bushels of grain in storage in Great Northern territory awaiting movement from farms and country elevators. During the early months of the year the stored grain moved to market rather slowly, but thereafter it moved more freely.

Moisture reserves at the start of the 1963 growing season were fortunately ample, since rainfall during the season was barely adequate in much of Great Northern territory, particularly in the western half of North Dakota and Montana east of the Rocky Mountains. The rain that was received was well-

timed, and in all but a small area in the northwestern part of Montana a good crop was harvested.

Prospects for the 1964 crop are uncertain. The Fall season was dry in the principal grain growing areas. Both surface and subsoil moisture are deficient, so that timely rains will be needed to bring through a satisfactory crop.

Most of the other important agricultural crops in Great Northern territory were good in 1963. Apples grown in the Wenatchee district of Washington were of excellent quality, and with a somewhat larger crop it is likely that shipments will be made for longer distances. Rail revenue is expected to be considerably greater than from the smaller 1962 crop.

The total potato crop was about the same as a year ago. Truck competition has been lessened by an adjustment in rates which gives shippers an incentive to load cars more heavily.

In view of the Cuban situation a large sugar beet crop was planted in 1963. Generally, the beets were grown and harvested under ideal conditions, so that the largest crop on record was raised with excellent yields per acre and high sugar content. Greater revenue was received from beet shipments, and the subsequent movement of sugar has been heavy.

At the beginning of the 1963 shipping season iron ore inventories were at a normal level and movement of ore from

the Mesabi Range continued at a steady rate. Great Northern's share of the total tonnage from the Lake Superior Region remained about the same as in recent years at 24%. The total shipped over the docks at Allouez, Wisconsin was 14,330,000 tons, up 2% from 1962.

The forecast for 1964 indicates that there will be about the same movement as in 1963. Inventories at the furnaces are at a lower level than a year ago and the steel operating rate has been increasing gradually for some time. The long-range future of Great Northern's iron ore traffic continues to be dependent on establishment of taconite processing plants on the west end of the Mesabi Range. Most of the technical difficulties have been overcome by research and pilot plant work. During the 1963 session of the Minnesota State Legislature a new statute was passed, and in the November, 1964 general election a constitutional amendment will be voted upon. If approved, these guarantees of tax equality will greatly improve the climate for large-scale investment in taconite processing plants.

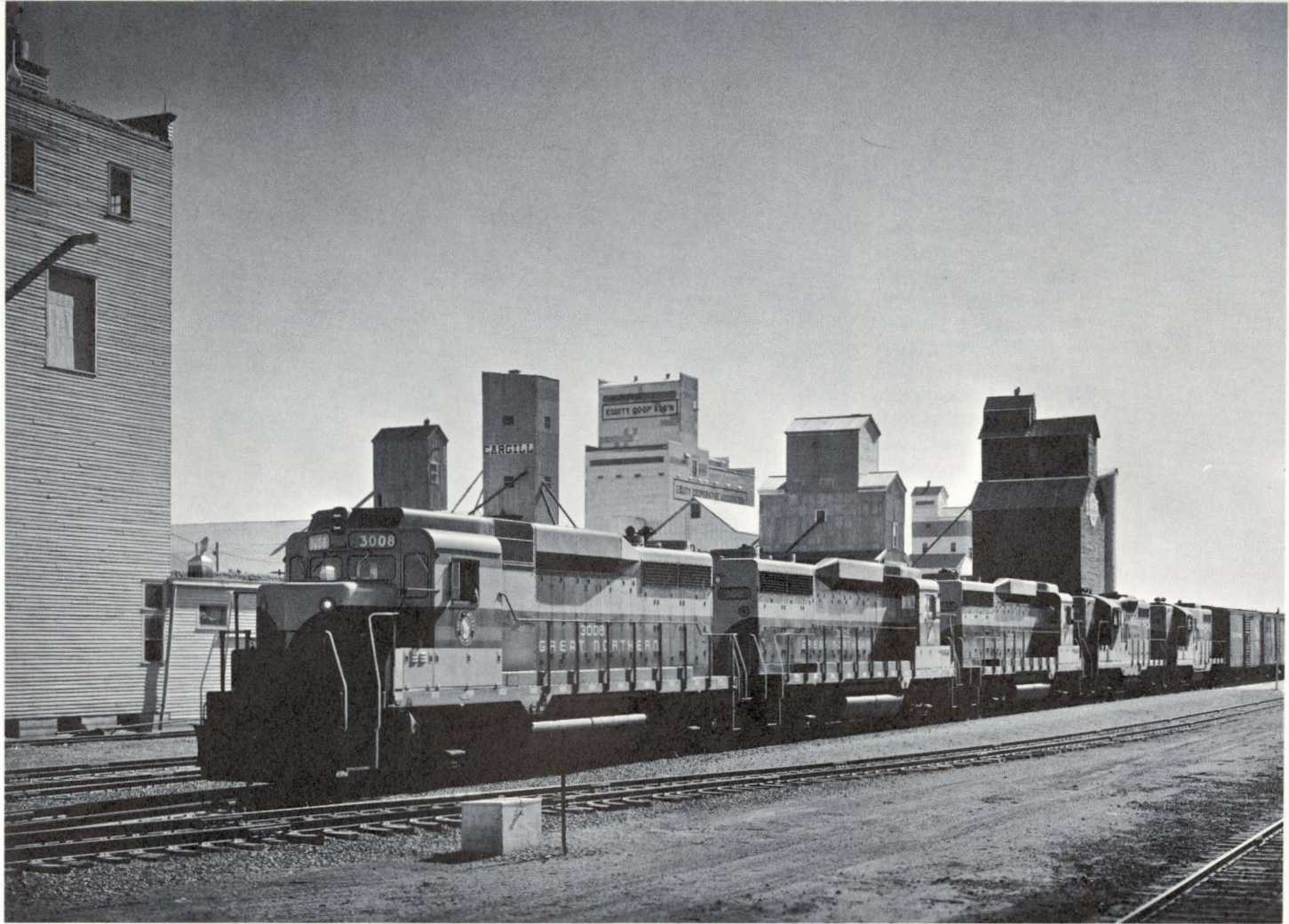
Although still a relatively small part of the total, the movement of highway trailers on flat cars continued to be a rapidly growing segment of Great Northern's business. Piggy-back revenues increased 9.5% during the year to a total of nearly \$4 million. New opportunities for piggybacking are being explored where the coordination

of rail and highway movements can provide more economical and more satisfactory transportation.

Movement of automobiles and trucks on multi-level rack cars continued to grow faster than almost all other classes of traffic. Total revenue from automobiles and trucks amounted to \$5.7 million, an increase of 9.9% over 1962. Great Northern's revenue from this traffic has increased 391% over the level of 1958, prior to the handling of auto transport trailers on flat cars and the introduction of the multi-level rack car. Adaptations of the idea are being developed for shipment of some agricultural implements and similar commodities.

There were no general changes in freight rate levels during 1963, but a great many adjustments were made in specific situations where new rates were needed to permit shippers to reach new markets or retain the present ones. In some cases rate reductions were placed in effect to meet competition from other forms of transportation. There were many situations in which rate reductions were coupled with incentives designed to encourage heavier loading of cars, as noted earlier in the instance of potatoes. Thus the shipper has an opportunity to share, in terms of a lower rate, the economies resulting from better utilization of railroad equipment.

A new idea in rate making was placed in effect for grain moving from the



Grain is king in GN territory, and most of it moves to market by rail. Typical is this scene at Conrad, in the wheat-raising belt of central Montana. We originated 136,835 carloads of grain and grain products in 1963—loading a staggering 3,662,260 tons of wheat alone!

Dakotas to the terminals at Minneapolis and the head of Lake Superior. A reduced rate effective November 1 to May 31 was established to provide an incentive to move grain during this off-season period when more cars are usually available and the railroad facilities can readily absorb additional traffic with minimum expense.

PASSENGER TRAIN REVENUE

Passenger revenues totaled \$9.6 million, a decline of 17.6% from 1962 when the Seattle World's Fair attracted a great many long-haul passengers. In 1963 no such special stimulus existed.

The Big Mountain ski resort at Whitefish, Montana continued to grow and to increase winter passenger traffic. In the 1962-1963 season rail passengers

to the resort increased 13%. With improved facilities and greater recognition of the ideal skiing conditions at the Big Mountain, patronage is expected to grow.

Several steps were taken to make passenger travel more attractive. Included was an experimental reduction in fares between the Twin Cities, Duluth and Winnipeg, where a special effort is being made to attract passengers from highway and air travel. In addition, nine modern streamlined coaches were purchased from another railroad to reduce the use made of older coaches.

Mail and express revenue for 1963 was \$10.4 million, approximately the same as in 1962. Great Northern handles most of the through mail between the Twin Cities and the Pacific Northwest. Westbound mail traffic from

the Twin Cities established a new record during the Christmas movement of December, 1963; total system mail volume for the year was close to a record. Express business continued at about the same level as in recent years.

OPERATING EXPENSES

Railway operating expenses in 1963 amounted to \$186.4 million, down \$1.4 million or 0.8% from 1962. This was a noteworthy achievement since the volume of freight traffic as measured by revenue net ton miles increased 3.9% and operating revenues increased 1.6%. Accordingly, the operating ratio—the proportion of operating revenue taken by operating expenses—declined from 78.6% to 76.8%. The 1963 ratio was the best since 1958.

Transportation expenses, which in-

Vermiculite, mined by Zonolite near Libby, Montana, is loaded into 100-ton hoppers. The new cars are efficiently utilized, carrying grain and grain products on their return westbound movement.

clude the cost of operating trains, yards and stations, were \$89.8 million in 1963, an increase of \$1.5 million during the year. There was a shift of about \$1.6 million of expenses from maintenance of equipment to transportation which had no effect on total operating expenses. If this had not occurred, transportation expenses would have been lower than the 1962 figure in spite of increased traffic volume.

Maintenance of way expenses were down slightly from \$37.9 million in 1962 to \$37.6 million in 1963. While the expenditures were about the same in the two years, the 1963 program provided an additional 21 miles of new rail relaying at a cost of about \$1 million. This extra rail renewal work was done at no increase in overall expense by carrying out other track maintenance work with greater efficiency. The introduction of more highly developed labor-saving machines for track maintenance work continued. As a result, smaller numbers of skilled men who operate and maintain these machines have largely replaced unskilled manual laborers.

Maintenance of equipment expenses at \$40.5 million in 1963 were down \$2.4 million from the level of the previous year, for reasons explained above.

Great Northern freight cars in need of heavy repairs at the end of 1963 were only 2.3% of the total, a figure well below the national average.



Likewise, practically the entire locomotive fleet was in serviceable condition, with only a few units in the shops for routine repair work.

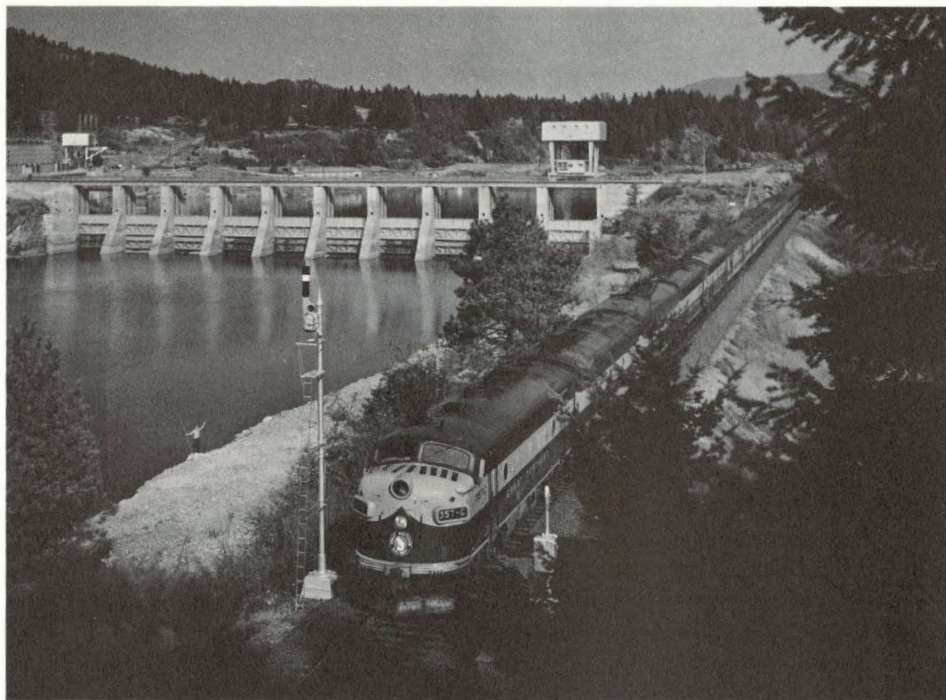
The overall ratio of maintenance expenses to operating revenues declined from 33.8% in 1962 to 32.2% in 1963, while the transportation ratio remained at 37.0% in both years.

During 1963 operating efficiency in many respects reached record high levels. Gross ton miles per freight train hour, which reflects the best combination of loading of trains and their speeds, surpassed all previous records at 76,834, an improvement of 5.5% compared to 1962. In every year since 1949 a new record has been set, but the in-

crease in 1963 was the largest recorded in any one year. Average speed of freight trains at 22.8 miles per hour was the highest on record and an increase of 27% in the last decade. These results have been achieved in spite of Great Northern's high proportion of branch line mileage on which traffic density is light, and on which local freight train service must be provided regularly regardless of fluctuations in the volume of traffic.

EQUIPMENT SUPPLY

Problems of box car supply in 1963 were particularly difficult. There were two very severe shortages during which the percentage of box cars on line to owner-



The Western Star, a popular summertime vacation train, is sustained by mail revenue most of the year. Here it skirts Albeni Falls Dam, on the Pend Oreille River near the scenic Idaho-Washington border.

ship fell to the very low level of 50% to 55%. The first of these shortages in March was primarily caused by the effect of very cold weather in the eastern part of the United States, which resulted in slow unloading and return of cars terminating in that area. In addition, a lengthy dock workers' strike at Atlantic and Gulf ports resulted in an accumulation of cars awaiting unloading.

Although Great Northern was able to take care of its peak loading requirements during the August-September harvest season without particular difficulty, a further severe shortage developed in October as the national fleet of cars at current levels of utilization proved to be inadequate to meet the expanded needs of the country as a whole. Box car supply was very tight for several months, but the shortage eased by the year's end.

During periods of car shortage, roads such as Great Northern, which originate more loads than they terminate, rapidly lose cars to other sections of the country.

One major step to correct the recurring shortages was taken during 1963,

when the members of the Association of American Railroads voted to establish a new system of multilevel daily rental payments for cars. Under this system, effective January 1, 1964, the per diem rate will vary from \$2.16 to \$7.74 per day, depending upon the value of the car, instead of the former flat rate of \$2.88 per day regardless of value. This will encourage the building of new cars, both those used for general purpose and the expensive specialized types, by providing a more adequate return to the owner. While the new rates are not entirely compensatory they have already contributed to the heavy car orders placed late in 1963 by many railroads.

Great Northern paid \$2.3 million in net rentals for equipment during 1963. However, this includes rentals in the amount of \$1,267,000 paid to the wholly-owned Western Fruit Express Company.

TAXES

Taxes accrued in 1963 were \$26.4 million, an increase of \$700,000 from the previous year.

Of the three main categories of taxes, those on property were slightly lower.

Some of the taxing authorities reduced assessments, but offsetting this was an increase in tax rates in many states. In several of the states we serve, the assessment methods used cause a greater burden to fall on the railroads than on other taxpayers. Progress is being made in correcting this situation, but inequitable property taxation still seriously affects the competitive ability of the railroads, which own and pay taxes on the roadways on which they operate.

On the other hand, truckers and barge operators, who use highways and waterways provided by government, are subject to taxation only on their equipment and a limited amount of terminal property. Truck lines pay license fees and fuel taxes, but these payments are largely used for maintenance and operation of the highways, leaving nothing as a contribution to schools and other general government expenditures. Barge lines even reject the suggestion that they should pay some form of user charge for the inland waterways which have been improved for their use by the Federal Government at a cost of millions of taxpayer dollars.

IMPROVEMENTS IN FACILITIES

CAPITAL expenditures for improvements in 1963 were budgeted at a relatively high level with particular emphasis on acquisition of new equipment and reduction of operating costs so that we can remain competitive with other forms of transport. The year's program was carried out substantially as planned.

Additions and betterments in 1963 totaled \$24.0 million, with \$7.3 million for roadway and structures, and \$16.7 million for equipment. Although the capital program for 1963 exceeded the five-year (1959-1963) average of \$19.9 million, plans for 1964 are for a further increase to a total of \$28.9 million.

EQUIPMENT PROGRAM

Great Northern's 1963 program for equipment included acquisition of 865 new freight cars, of which 500 were box cars constructed at the railway's shops in St. Cloud, Minnesota and 365 were cars of various types purchased from outside car builders.

In recent years many railroads have used funds available for freight car construction to build a limited number of highly specialized cars to meet particular requirements. As a result, the number of general-purpose box cars in the national fleet has been declining. The 500 box cars built by Great Northern are 50 feet in length and of 70-ton capacity. They have not only the size, weight capacity and wide-door openings



These big new 50-foot, 70-ton box cars with combination "plug" and sliding doors are equally adaptable to grain loading or to forklift loading of plywood, as shown here at the new plant of the J. Neils Division, St. Regis Paper Co. in Libby, Montana.

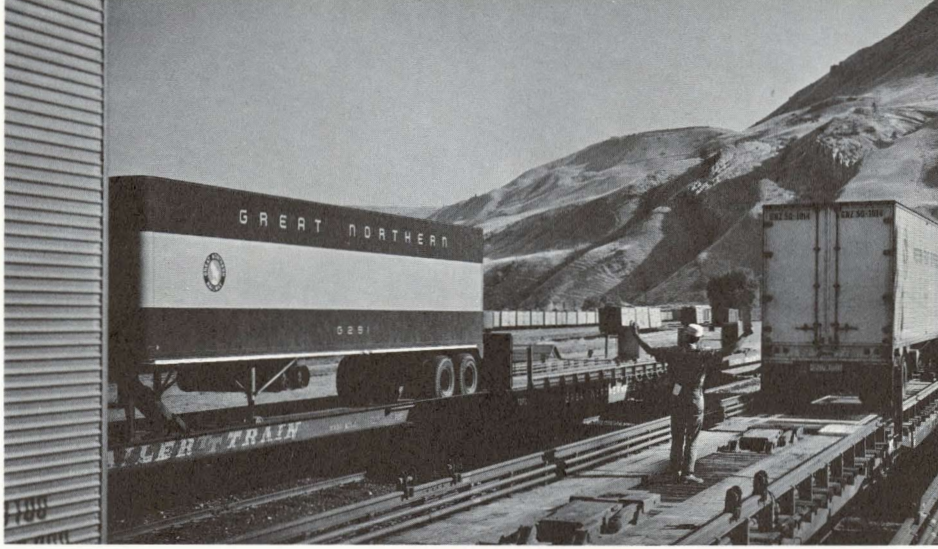
needed for modern incentive rates and labor-saving mechanical loading equipment, but also they are an essentially general-purpose car to meet all kinds of box car needs.

A number of more specialized cars also were acquired. Many of these have greater capacity than most existing cars, or have particular features which make rail transportation more attractive to shippers. Among these are 200 box cars 50 feet long with 70-ton capacity, and 50 cars 60 feet long with 90-ton capacity, all equipped with cushion underframes.

The trend toward moving bulk commodities in large covered hoppers is

being met with 55 very large 100-ton-capacity cars built of steel and aluminum. Another type of car tailored to a special need is a group of 30 high-capacity flat cars with permanent end-bulkheads and side stakes, used to transport economically large aluminum ingots from a western aluminum production plant to a middle-western processing plant.

In addition to the new freight cars acquired, Great Northern also leased 550 forty-foot double-door box cars and arranged for an additional 700 fifty-foot double-door box cars scheduled for delivery early in 1964. These cars were out of service on other railroads and were rehabilitated to assist in reducing



Another substantial increase in piggyback traffic was achieved by Great Northern in 1963. Refrigerated vans of fresh fruit are being loaded on flat cars at Wenatchee, Washington.

recurring shortages of box car equipment.

Great Northern's subsidiary, Western Fruit Express Company, acquired 100 new mechanically-refrigerated cars which can maintain temperatures at any point between zero and 70 degrees. Cars of this type are gradually replacing the smaller refrigerator cars which depend on ice for Summer refrigeration and portable alcohol-burning heaters for protection against Winter cold. In addition, Western Fruit Express acquired 101 new insulated box cars for protection of canned goods and other commodities which require some protection

from extreme temperatures but do not need either refrigeration or heating.

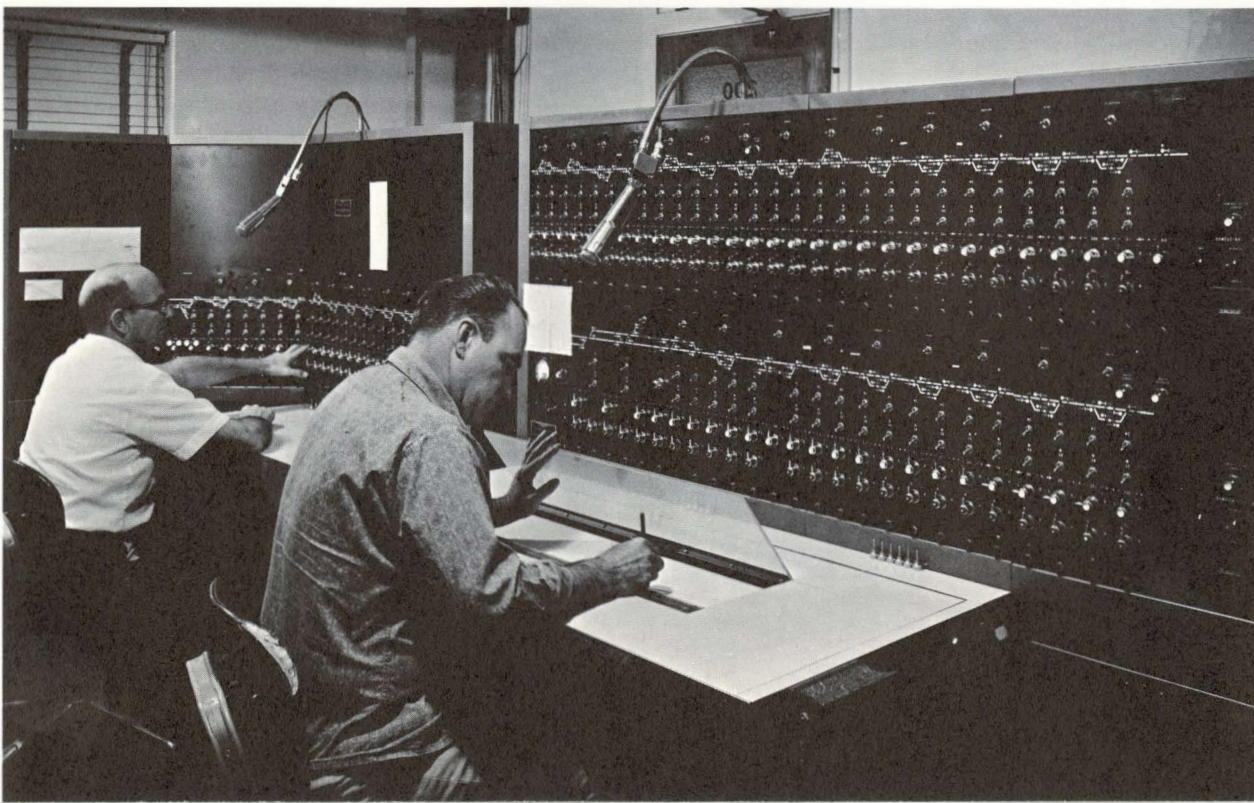
During the year 17 older 1350 HP diesel freight units were returned to the builder and replaced with an equal number of heavy-duty 2250 HP road freight units. These new locomotives combine lower maintenance costs with the much greater horsepower needed to power heavy trains on fast schedules.

The equipment program for 1964 includes capital expenditures of \$22.3 million. Principal items are \$3.8 million to acquire 18 new 2500 HP diesel electric freight units, and \$17.6 million for new freight cars, including 600 box cars, 175

large-capacity covered hoppers, 100 flat cars and 250 other cars. They will all have roller bearings.

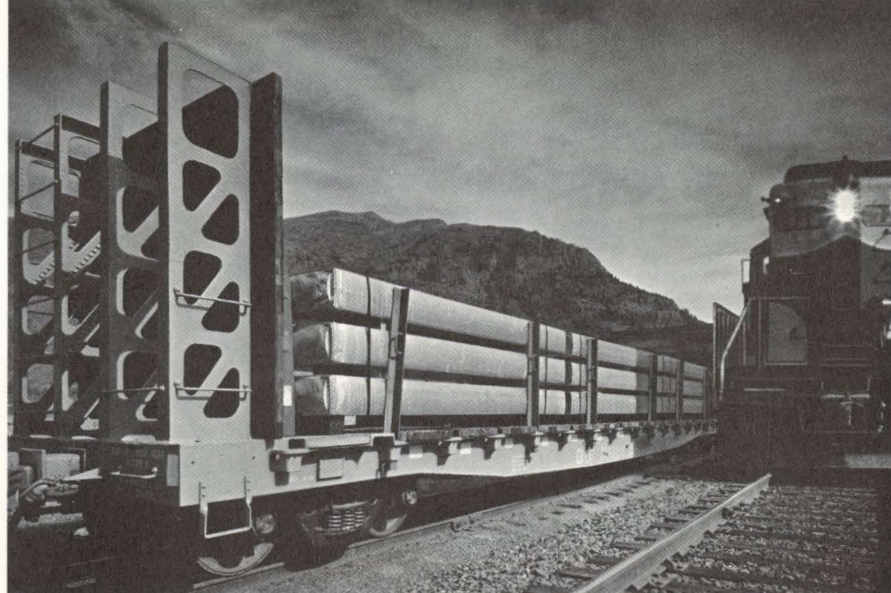
FIXED PROPERTY IMPROVEMENTS

Aside from a normal program of laying new rail and ballasting, the most important property improvement projects in 1963 were further extensions of centralized traffic control (CTC) on the main line in North Dakota and Montana. A 78.1 mile segment between Juanita and Aylmer, North Dakota and 43.8 miles between Chester and Shelby, Montana were completed during the

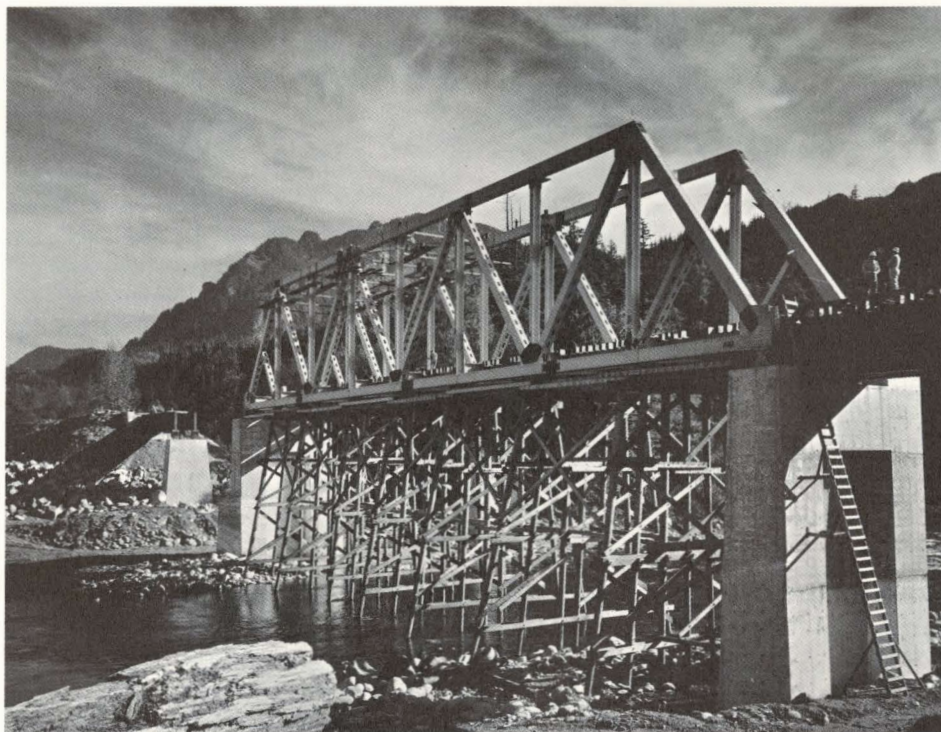


Centralized control of train traffic over 377 miles of Great Northern main line between Bainville and Shelby, Montana, is exercised from this CTC center at Havre.

Aluminum ingots weighing 8,800 pounds each and totaling nearly 90 tons are loaded on new heavy-duty flat cars, for movement from the expanding Anaconda Aluminum plant at Columbia Falls, Montana.



This new span over the Skykomish River is part of a three-phase \$6 million relocation of GN's main line on the west slope of the Cascade Mountains in Washington State.



year. There are now 1003.8 miles of Great Northern main line on which signals and switches are remotely controlled by electronic means from central locations.

Another important project was completion of the 3¾-mile second phase of the line changes being made on the west slope of the Cascade Mountains near Index, Washington. Sharp curves are being eased so that train speeds can

be increased and track maintenance costs reduced.

In communications, work was completed on installation of carrier telephone circuits between St. Paul and Seattle. This permits direct dialing between all principal Great Northern offices throughout the system.

Ordinary programs of track maintenance, such as replacement of rail, ballasting with improved ballast and

renewal of ties, were carried out on a more extensive scale than in 1962, although the cost of the work was less. New 115-pound rail was laid on 75 miles of main line. Practically all was continuously welded in quarter-mile sections, making a total of 388.51 miles on which welded rail has been laid. On secondary lines 106 miles of secondhand rail of various weights were laid to replace light and worn rail. A total of 448,000 cubic yards of additional ballast was used on the system.

The 1964 capital expenditure program for roadway and structures provides for work estimated to cost \$6.5 million. There will be further extension of CTC. One segment of 57 miles between Nolan and Juanita, North Dakota will virtually complete this work on the main line in North Dakota. Another CTC project, 75.8 miles long, will complete an 86-mile installation between Everett and Merritt, Washington, speeding operations over the Cascade Mountains. The third phase of the line changes on the western slope of the Cascades, a 1.8 mile segment between Halford and Gold Bar, Washington, will be carried out. The CTC work and line straightening are in areas where traffic volume will increase as a result of unification.

The usual program of track improvement will include laying of new rail on 76 miles of track, secondhand rail on 87 miles and application of 436,000 cubic yards of new ballast.

SERVICE IMPROVEMENTS AND TRAFFIC DEVELOPMENT

GREAT Northern's improved net in 1963 reflects to some extent a healthier national and regional economy. But our ability to capitalize on better business conditions in the face of accelerated competition is attributable in a large degree to effective traffic development and improved services.

Our truck competitors have been sub-

stantially benefited by the continuing extension of new interstate highway mileage. To better our own service position, particularly on carload traffic, Great Northern in late October slashed a full day from delivery schedules on westbound freight between Chicago, the Twin Cities and the Pacific Northwest. This meant, for example, third evening

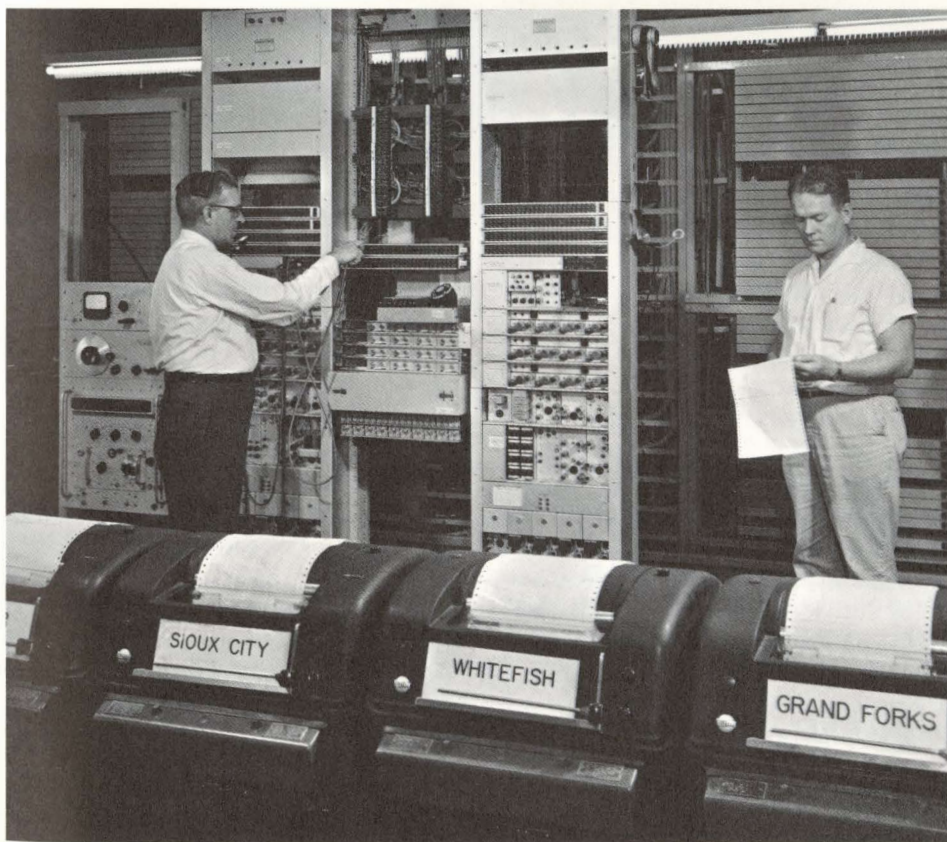
arrival in Portland and Seattle on freight originating in Chicago—the fastest transcontinental freight service we have ever offered.

In early February of 1964 a comparable full-day reduction was made in eastbound schedules.

Meanwhile, we continued through 1963 the vigorous promotion and solicitation campaign begun a year earlier to improve our less-than-carload traffic. This campaign stresses the economy of Great Northern LCL rates as compared with those of common motor carriers, and has had encouraging results.

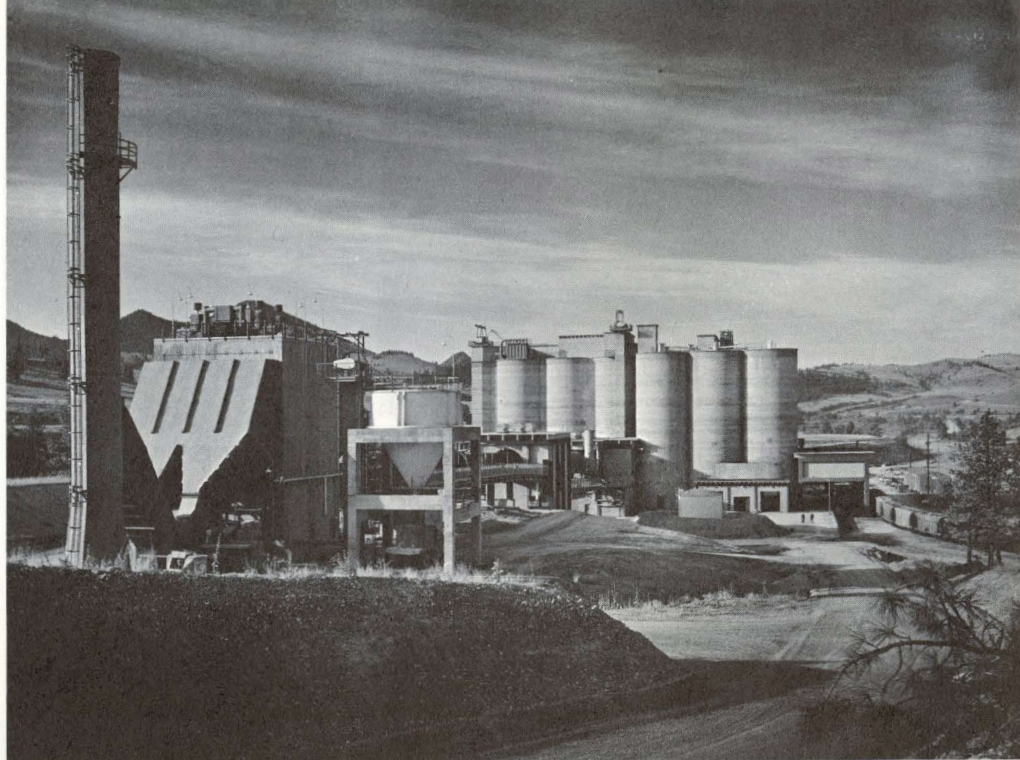
Equipment design has become an increasingly important factor in holding and generating traffic. Classic examples, of course are the development of piggy-back and of automobile rack cars, an innovation which has returned to the rails almost all long-distance transportation of automobiles. Even the general-purpose box car has become more versatile, with increased capacity, larger doors and such applications as hydraulic draft gear to cushion fragile freight.

A significant service improvement was accomplished in 1963 by lowering track an average of six inches in tunnels at Blacktail, in the Montana Rockies, and at Everett, Washington. The elimination of clearance problems in these tunnels improved the governing clearance on Great Northern's main line to six feet in width at nineteen feet above top of rail, with six inches of tolerance—an



An important communications improvement in 1963 was completion of a direct distance dial telephone system, extending from our St. Paul headquarters to Seattle.

Great Northern serves Permanente Cement Company's impressive new plant near Helena, Montana. Dedicated in 1963, the plant has an annual capacity of 1.4 million barrels, much of it going initially to the Yellowtail Dam project in Montana.



important factor in the handling of high-wide loads in regular train service.

INDUSTRIAL EXPANSION

The number of new industries located on Great Northern trackage in 1963 totaled 100, nearly 40% of which were distribution warehouses. While this was an increase of 10 over new industries in 1962, construction generally was slow. Many new projects were under consideration, however, and an improvement in construction activity in line with the accelerated pace of economic development is looked for in 1964.

Biggest of the new warehouses begun in 1963 is the \$2½ million distribution center being built by Safeway Stores on a 20-acre tract at Hillyard, Washington, near Spokane. The center will serve Safeway's 47 stores in Spokane and the surrounding area.

A number of important additions were made to existing facilities during the year. Fast-growing Tonka Toys at Mound, Minnesota, began a \$1.5 million expansion which includes a new rubber plant slated to be in operation early in 1964. And on the western end of the line, at Fidalgo, Washington, near Anacortes, Shell Oil Company completed the first phase of a multi-million dollar

expansion of its refinery facilities. In the Spokane area, Kaiser Aluminum Company completed a \$6 million improvement to their Mead and Trentwood plants, while at Columbia Falls, Montana, Anaconda Aluminum Company began an expansion program which will boost capacity from 135 million to 200 million pounds a year by July, 1965.

The year also saw a substantial expansion of fruit warehousing capacity in the Wenatchee-Okanogan area in central Washington. Construction at six different points will bring a total increased capacity of nearly 864,000 boxes.

An attractive prospect for future industrial development in the northern Puget Sound area of Western Washington was afforded Great Northern with the purchase of 245 acres fronting on salt water at Ferndale. This tract and an additional 200 acres purchased by the Port of Bellingham form the new Mountain View Industrial District. Great Northern also completed purchase of 8½ miles of right of way for construction of a spur to the area.

MINERAL RESEARCH AND DEVELOPMENT

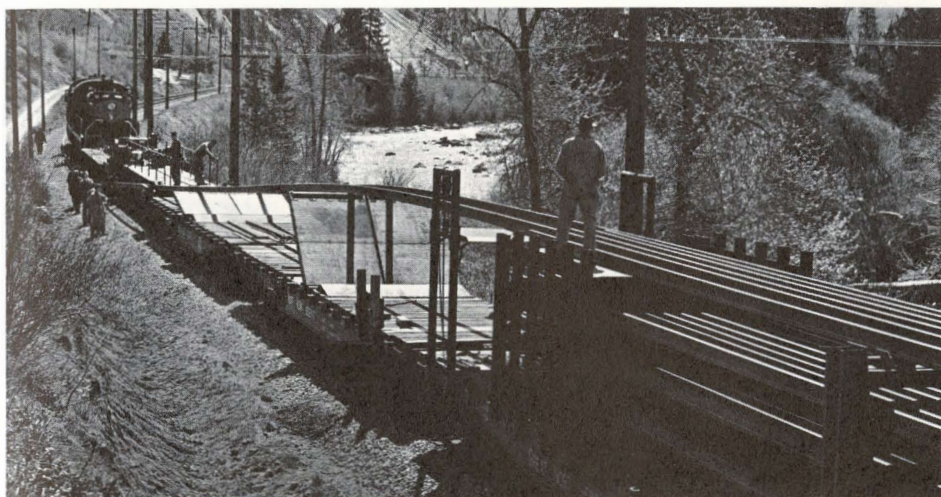
A cooperative project at the University of North Dakota, which resulted earlier

in the development of a simple and economic process for gasifying lignite, was subject of a U.S. patent granted in late 1963. While the project aimed originally at supplying reducing gas for beneficiation of non-magnetic taconite, a low grade iron ore, it has been extended to study other applications.

A final report covering the taconite research project initiated late in 1956 by Great Northern and the University of Minnesota was completed and distributed to the cooperating mining companies. The far-ranging project was two-fold, involving an exhaustive correlation of data on the mineralogy and metallurgy of the ores on the western part of the Mesabi Range served by Great Northern, as well as development of economic methods to treat those ores. The results were well received by the mining companies, without whose full cooperation the study would not have been possible.

Investigative and informational activity was carried out on many other fronts during 1963, with a major concern of our mineral research and development program being the exploitation of those mineral resources which may be keys to the growth of integrated industries in Great Northern territory.

PERSONNEL



Ten miles of rail, welded in quarter-mile lengths at Havre, Montana, moved on specially-equipped flat cars to a 1963 relaying job on the east slope of the Cascade Mountains.

DURING 1963 the productivity of Great Northern's labor force, as a whole, increased in terms of traffic units per dollar of wages paid. In large part, the improvement is the result of investment of many millions of dollars in equipment and facilities which contribute to operating efficiency. While employees declined in number, the decrease in dollar total of compensation paid as wages was not comparable. The average straight time hourly wage rose to the highest level on record.

EMPLOYEE RELATIONS

In the annual reports of recent years, reference has been made to the continu-

ing effort, since November 1, 1959, to revise the obsolete working rules which apply to the operating employees. A Presidential Railroad Commission made recommendations in 1962, after more than a year of study, which would have provided greater flexibility of operations, eliminated unproductive employees and made pay adjustments with the net effect of increasing wages of the operating employee group by 2%.

Unfortunately, these recommendations were not accepted as a basis for settlement by the five operating unions, who also refused arbitration. Instead they appealed to the courts to block any change in the rules. In March, 1963,

the United States Supreme Court upheld the position of the railroads.

However, the unions turned to the technical procedures of the Railway Labor Act, and to avoid a strike threat an Emergency Fact Finding Board was appointed by President Kennedy. This Board, headed by Judge Samuel Rosenman, made recommendations generally along the lines of the original Presidential Commission report. Again, the labor organizations refused to accept the decision as a basis for settlement.

Finally, after nearly three months of further efforts to reach a solution and with a strike appearing inevitable, Congress passed a joint resolution on August 28 establishing an Arbitration Board empowered to make a binding decision on the issues involving consist of crews and whether firemen should be required on locomotives used in freight and yard switching service. The Board made its decision on November 28, and on the fireman issue reaffirmed the principle established by all previous Boards that the fireman on freight and switch engines could be removed. The decision would protect for life the jobs of employees with ten or more years' seniority, would guarantee employment to those with two to ten years' seniority, and would provide severance pay to those with the least seniority. The operating unions have continued to be adamant in their opposition to change and have taken the arbitration award to court.

FINANCIAL AND

STOCKHOLDERS

ON the last record date in 1963, Great Northern was owned by 44,651 stockholders, a net increase of 300 during the year. Shares outstanding in the hands of the public at the end of 1963 totaled 6,096,924.

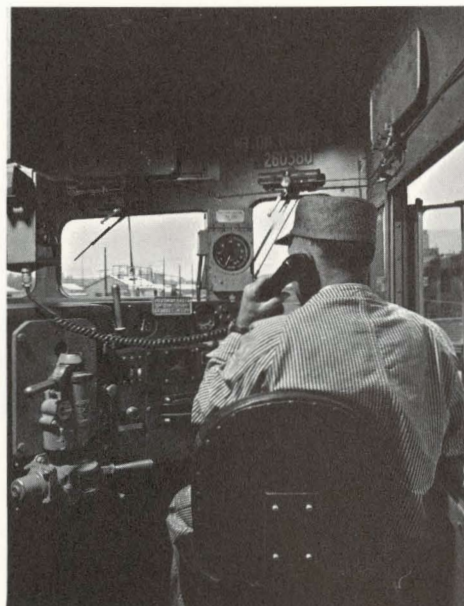
Quarterly dividends of 75c, totaling \$3.00 per share, were paid on the first of February, May, August and November during the year.

FUNDED DEBT

At the end of 1963, funded debt was \$237.8 million, an increase of \$2.9 million during the year. The increase was entirely due to the sale of two new equipment trusts totaling \$11,850,000, which exceeded maturities on previously outstanding certificates. The two new issues were sold in March and May at interest costs of 4.16% and 4.12% to maturity, respectively. Of the total debt outstanding on December 31, 1963, \$8.6 million are equipment obligations due in 1964. The next maturity of mortgage bonds will not occur until 1973.

As of December 31	General Mortgage Bonds (Millions)	Equipment Obligations (Millions)	Total Funded Debt (Millions)
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
1963.....	178.7	59.1	237.8

In 1963, depreciation charges, included in the accounts as a maintenance



Radio contributes importantly to the speed, safety and convenience of train operations. At year's end on Great Northern, 546 locomotives, 184 cabooses, 80 miscellaneous units and 172 base stations were radio-equipped. Further expansion is planned for 1964.

The resolution passed by Congress in August, 1963, provided for continued negotiation of the related work rules which were not subjected to arbitration, and also required that no changes could be made until February 25, 1964, except by agreement. Negotiations on these issues were not successful during 1963.

While the work rules issues concern only the operating employees, the non-operating unions, representing off-train employees such as clerks, car repairmen and track employees, filed requests on May 31, 1963, for increases in wages, fringe benefits and working rules changes. Negotiations are underway on a national basis since all railroads are involved. Late in the year, several of the operating brotherhoods also presented demands for increased wages.

Great Northern continued its scholarship program for sons of railway employees. The four-year awards will be increased to \$800 annually beginning in 1964, and five new scholarships will

be given to students entering college in the Fall of 1964. The qualifications of the scholarship winners have been outstanding, and Thomas Schwartzbauer, a 1959 winner, is the first to be awarded a Fulbright Fellowship for graduate study abroad. A 1963 graduate of Notre Dame University, he is attending the University of Erlangen in West Germany.

The employee safety record for 1963 fell short of our high standard of past years. The ratio of on-the-job accidents resulting in disability of one day or more was 7.65 per million man hours compared to 6.65 in 1962. Fatalities to employees, however, decreased from seven in 1962 to four in 1963. Our Mesabi Division, Special Agents Department and Hillyard Shop were cited by the National Safety Council in 1963 for their 1962 safety records.

The Dining Car Department, for the sixth consecutive year, was awarded a special citation for excellence in sanitation by the U.S. Public Health Service.

CORPORATE

expense in the amount of \$15.6 million, were more than sufficient to make the annual principal payments on existing equipment trusts and to make the 20% cash down payment on new equipment acquired during the year.

EFFECT OF TAX LAWS ON NET INCOME

Federal income tax laws for a number of years during and shortly after the Korean War permitted rapid amortization of investment in certain facilities declared essential. Amortization expired in 1962, and tax benefits on our investment in these facilities ceased in that year, although the booked depreciation on these items will continue for a number of years.

This reduction in net income, however, is more than offset by other deductions authorized for income tax purposes. Federal tax laws permit property acquired beginning January 1, 1954 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 addition, the Treasury in 1962 published new guide lines which permit use of much shorter lives in calculating depreciation deductions for tax purposes than have been authorized by the Interstate Commerce Commission. Also in

1962, Congress enacted the 7% investment credit.

The net effect in 1963 of all of the above tax adjustments, with consequent reductions in income taxes applicable to that year, results in net income \$7.3

poses as authorized by the Congress in 1954, and also will use the guideline lives 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:

Year	Change in Net Income Due to Amortization of Defense Facilities		Change in Net Income Due to Accelerated Depreciation, Guideline Lives and 7% Tax Credit		Combined Change in Net Income	
	Amount (Millions)	Per Share	Amount (Millions)	Per Share	Amount (Millions)	Per Share
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	8.6-I	1.42-I	7.3-I	1.20-I

million greater than would have been reported had the tax benefits not been taken. The corresponding effect of tax changes in 1962 was a benefit of \$6.5 million.

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 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 for tax pur-

poses as authorized by the Congress in 1954, and also will use the guideline lives 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:

AFFILIATES AND SUBSIDIARIES

In 1963, Great Northern received \$6.2 million in dividends from the Chicago, Burlington & Quincy Railroad Company, the same as in 1962. All but 2.8% of the Burlington stock is owned in equal amounts by Great Northern and Northern Pacific. The Burlington's results improved somewhat in 1963 with \$21.4 million in net income, compared

to \$20.4 million in the previous year.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, showed a substantial improvement in earnings for the second consecutive year. Gross revenue increased considerably more than expenses, and net income of \$2,197,000 was earned in 1963 compared to \$717,000 in 1962. Great Northern and Northern Pacific own all of the outstanding mortgage bonds of the SP&S, and each parent company received \$1.1 million in bond interest during the year. In addition, the SP&S repurchased \$1.5 million principal amount of its bonds from each parent during the year.

The Western Fruit Express Company, wholly-owned by Great Northern, operates refrigerator cars as part of a pool including Burlington Refrigerator Express and Fruit Growers Express Company. It had a successful year, with both gross revenue and net income improving. Net income was \$1,242,000 in 1963, up from \$1,054,000 in 1962. The company paid a dividend of \$510,000 to Great Northern in 1963, as in 1962. In 1964 it plans to purchase, for frozen food service and for general perishable traffic, 100 additional mechanical refrigerator cars which will replace obsolete ice-refrigerated cars. In addition, 100 extra-large insulated box cars will be acquired.

Portal Pipe Line Company, 43¾%

owned by Great Northern, had its first full year of operation since construction in 1962. The pipe line, which joins North Dakota oil fields to markets in Minnesota, had net income of \$534,280. It performs gathering and trunk-line services and handled 7,429,142 barrels of oil during 1963.

DEVELOPMENTS IN DATA PROCESSING

Although Great Northern first moved into the field of data processing with punch cards and tabulating machines many years ago, the first major step in a computerized data processing program was taken in 1957 when a large-scale Univac I computer was installed. As the program gradually developed, this computer was assigned tasks which used all of the available time around the clock. In 1961 a smaller but highly developed Solid State computer was placed in service. Finally, late in 1963, a new Univac III computer with greatly increased capacity was installed to assume work beyond the capacity of the existing equipment. This permitted elimination of the leased Solid State machine and will eventually lead to elimination of the old Univac I.

An example of the greater capacity of the new Univac III is the preparation of dividend checks which required 40 hours of computer time on the Solid State computer. This operation has been transferred to the Univac III and

now requires only 1½ hours of computer time to prepare over 44,000 checks and perform other related tasks in connection with payment of the dividend.

In the field of data processing research, Great Northern has joined with a group of six other railroads in a joint project with the Battelle Memorial Institute to develop computer simulation models of railroad freight operations. This work is of an experimental nature in operations research to determine if the computer can be used to assist the operating management with a tool for decision-making when different alternative plans of handling an operating problem are under consideration.

LEGISLATION

Extensive committee hearings were held in 1963 on the legislation recommended by President Kennedy concerning transportation problems. Subjects considered included the imposition of charges for the use of publicly provided transportation facilities, and the extension to all surface carriers of the freedom from minimum rate regulation now enjoyed by motor and water carriers in respect to agricultural and bulk commodities. The motor and water carrier interests have vigorously opposed these measures. In January, 1964, President Johnson in his budget message urged their prompt enactment, and in February a bill to accomplish some of the objectives was reported favorably to the



Participants in the November dedication of the new UNIVAC III Data Processing Center were, left to right: President John M. Budd; UNIVAC Vice President and General Manager R. C. McDonald; and GN Vice President and Comptroller John A. Tauer.

House of Representatives by the Committee on Interstate and Foreign Commerce.

S. 1063, known as the incentive per diem bill, has been introduced by the Chairman of the Senate Commerce Committee and co-sponsored by 36 other senators. It has been supported by the Interstate Commerce Commission, by the Great Northern and by certain other railroads. If enacted, it would authorize the Commission to consider the national car supply and the public interest in setting freight car per diem charges. Passage of this legislation would be helpful in relieving box car shortages that adversely affect Great Northern.

LITIGATION

The Divisions cases, the Grain case and the Western Pacific control case were mentioned in the 1962 annual report.

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 proceeding as one of the transcontinen-

tal lines. The Interstate Commerce Commission decided the case adversely to the transcontinental lines and ordered new divisions effective July 1, 1963. An action has been commenced in a Federal Court in California to set aside the Commission's decision. While an injunction has kept the new divisions from becoming effective, a hearing on the merits has not yet been held. In accordance with an order of the Interstate Commerce Commission there has been withheld from operating revenues and included in a reserve an amount estimated as payable from 1963 revenues to eastern and midwestern roads in the event the new divisions are finally held lawful by the courts. The amount of the reserve at the close of 1963 was \$1,487,300.

The second Divisions case concerns the eastern and midwestern roads, and the issue again is the proper apportionment of through revenues. Great Northern is involved as to its traffic east of Montana. A Federal Court suit against the Commission's order was decided in favor of the western roads in February, 1964. This case is being appealed to

the United States Supreme Court.

In the Grain case brought by southeastern interests for changes in the grain rate structure, a decision has been made by the Interstate Commerce Commission upholding the position of Great Northern and other western lines.

The Western Pacific control 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 hearing examiner of the Interstate Commerce Commission has released his proposed report, recommending that the Santa Fe be authorized to control the Western Pacific. Exceptions to the report have been filed. Date for argument before the Commission has not been set.

Litigation has been in progress for the last ten years before the Interstate Commerce Commission and in the courts as to the per diem rate, the daily charge for the use by one railroad of cars belonging to another. The matter of what a legal and proper per diem rate should be is now before the Interstate Commerce Commission in several related cases in which Great Northern is taking an active part. In addition, in December, 1963, the Commission instituted a general investigation, which, in its initial stage, is limited to adequacy of railroad freight car ownership, but may be broadened to include car utilization, car distribution and car service rules and practices.

GREAT NORTHERN RAILWAY COMPANY

CHANGE IN WORKING CAPITAL

January 1 to December 31, 1963

BALANCE AT BEGINNING OF YEAR..... \$ 43,852,328

SOURCES OF WORKING CAPITAL:

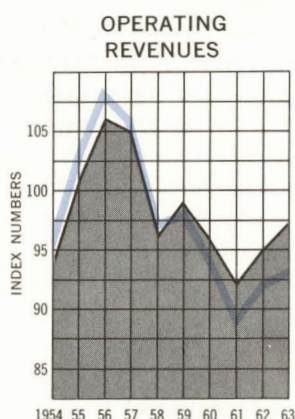
Net income.....	\$29,273,689	
Depreciation and other non-cash income items.....	17,723,654	
Sale of property, investments, and other assets.....	4,151,465	
Proceeds from equipment financing.....	11,850,000	62,998,808
		<u>\$106,851,136</u>

APPLICATIONS OF WORKING CAPITAL:

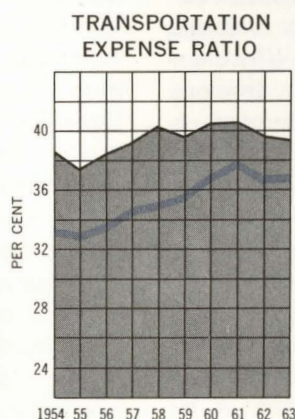
Additions and betterments to property and equipment.....	\$23,978,709	
Reduction of long term debt.....	8,986,318	
Dividends accrued.....	18,263,528	
Other—net.....	525,049	51,753,604

BALANCE AT END OF YEAR..... \$ 55,097,532

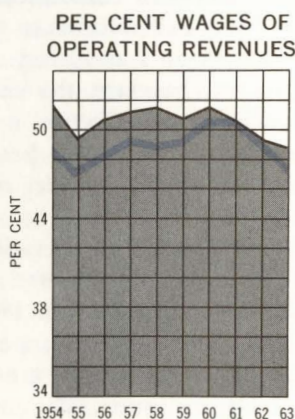
NET INCREASE IN WORKING CAPITAL..... \$ 11,245,204



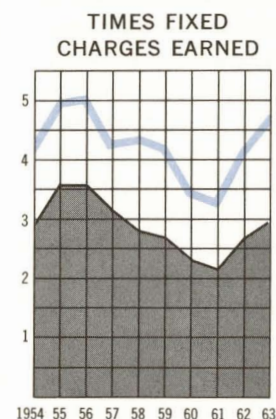
Both Great Northern and the railroad industry as a whole shared in 1963's more vigorous economy, continuing to show the improved revenue trend of the past two years.



The favorable physical characteristics of Great Northern's main lines have permitted a ratio of transportation expense to revenues well below the industry average.



Wages are a railroad's largest single operating cost. Great Northern has consistently held its own percentage of wages to operating revenues below that of the industry.



Continued improvement in net income in 1963 provided the best fixed charge coverage after taxes since 1956, and the best coverage before taxes—5.3 times—since 1958.



GREAT NORTHERN RAILWAY

ALL CLASS 1 R.R.U.S.

1957—1959=100

1963 Class 1 Railroad statistics are preliminary figures.

GREAT NORTHERN RAILWAY COMPANY STATEMENT OF INCOME

Year ended December 31, 1963 with comparative figures for 1962

	1963	1962
OPERATING REVENUES:		
Freight.....	\$215,314,583	\$209,222,917
Passenger, mail and express.....	19,987,901	21,993,269
Other.....	7,507,964	7,724,237
Total operating revenues.....	<u>242,810,448</u>	<u>238,940,423</u>
OPERATING EXPENSES:		
Transportation.....	89,818,736	88,359,880
Maintenance of way and structures.....	37,584,484	37,906,335
Maintenance of equipment.....	40,488,407	42,938,175
Traffic, general and other.....	18,473,049	18,604,376
Total operating expenses.....	<u>186,364,676</u>	<u>187,808,766</u>
NET REVENUE FROM RAILWAY OPERATIONS.....	<u>56,445,772</u>	<u>51,131,657</u>
TAXES AND RENTS:		
Federal income tax (note 1) less adjustment of prior years' provisions of \$1,195,585 in 1963 and \$500,000 in 1962.....	4,990,415	3,825,000
Payroll taxes.....	9,641,284	9,886,778
Property taxes.....	7,610,103	8,005,507
Other taxes.....	4,152,728	3,963,084
Equipment and joint facility rents—net.....	3,052,871	2,278,164
Total taxes and rents.....	<u>29,447,401</u>	<u>27,958,533</u>
NET RAILWAY OPERATING INCOME.....	<u>26,998,371</u>	<u>23,173,124</u>
OTHER INCOME:		
Dividends.....	6,940,870	6,941,631
Interest.....	2,585,498	2,208,216
Rent and miscellaneous income—net.....	699,860	680,215
Total other income.....	<u>10,226,228</u>	<u>9,830,062</u>
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT.....	<u>37,224,599</u>	<u>33,003,186</u>
NET INCOME.....	<u>7,950,910</u>	<u>7,984,200</u>
Per share of common stock (including \$1.20 in 1963 and \$1.07 in 1962 resulting from reduction in income taxes as described in note 1).....	<u>\$ 29,273,689</u>	<u>\$ 25,018,986</u>
	<u>\$4.80</u>	<u>\$4.12</u>

STATEMENT OF RETAINED INCOME

RETAINED INCOME AT BEGINNING OF YEAR.....	\$372,857,113	\$363,069,348
NET INCOME FOR YEAR.....	<u>29,273,689</u>	<u>25,018,986</u>
	<u>402,130,802</u>	<u>388,088,334</u>
DEDUCT:		
Dividends declared—representing four regular quarterly dividends declared in 1963 and five in 1962 (\$3.00 a share paid in each year).....	18,263,528	22,776,124
Miscellaneous charges (credits):		
Reserve for adjustment of securities restored to retained income in 1962.....	—	(6,318,353)
Acquisition adjustment credits and donations and grants applicable to retired property, etc.....	—	(815,235)
Reduction in amounts provided for unfunded past service pension costs by charges against retained income in prior years, less related income taxes.....	(336,000)	(411,315)
	<u>17,927,528</u>	<u>15,231,221</u>
RETAINED INCOME AT END OF YEAR.....	<u>\$384,203,274</u>	<u>\$372,857,113</u>

See accompanying notes to financial statements on page 24.

GREAT NORTHERN RAILWAY

December 31, 1963 with

ASSETS	1963	1962
CURRENT ASSETS:		
Cash and temporary cash investments.....	\$ 73,716,503	\$ 56,689,363
Accounts receivable.....	16,664,694	16,760,227
Material and supplies, at cost.....	16,049,990	17,361,225
Other current assets.....	571,739	537,927
Total current assets.....	107,002,926	91,348,742
CAPITAL AND OTHER SPECIAL FUNDS.....	3,306,659	2,351,610
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies (note 3).....	167,500,369	167,970,089
Other companies.....	5,087,330	5,906,882
Total investments.....	172,587,699	173,876,971
PROPERTIES (note 2):		
Road and roadway structures, etc.....	556,627,654	549,658,648
Equipment.....	340,350,821	330,577,269
Total transportation property.....	896,978,475	880,235,917
Allowance for depreciation and amortization.....	243,558,752	233,113,069
Net transportation property.....	653,419,723	647,122,848
Non-operating property.....	12,673,031	12,828,565
Net properties.....	666,092,754	659,951,413
OTHER ASSETS AND DEFERRED CHARGES.....	13,907,971	14,547,449
TOTAL ASSETS.....	\$962,898,009	\$942,076,185

See accompanying notes to financial statements on page 24.

COMPANY BALANCE SHEET

comparative figures for 1962

LIABILITIES AND SHAREHOLDERS' EQUITY		1963	1962
CURRENT LIABILITIES:			
Accounts payable.....		\$ 14,671,008	\$ 14,219,627
Accrued payroll and vacation pay.....		9,913,239	9,765,144
Accrued taxes.....		17,133,492	13,821,975
Dividends payable.....		4,575,948	4,555,349
Other current liabilities.....		5,611,707	5,134,319
Total current liabilities (excluding debt due within one year)...		<u>51,905,394</u>	<u>47,496,414</u>
DEBT DUE WITHIN ONE YEAR.....		<u>8,644,318</u>	<u>8,702,318</u>
LONG-TERM DEBT:			
General mortgage gold bonds:			
DUE	RATE	AMOUNT	
1973	5%	\$14,154,900	
1976	4½%	14,508,000	
1982	2¾%	40,000,000	
1990	3⅛%	37,500,000	
2000	3⅛%	37,500,000	
2010	2⅞%	35,000,000	
		<u>178,662,900</u>	178,662,900
Equipment and other obligations, 2% to 5%.....		50,447,000	47,525,318
Total long-term debt.....		<u>229,109,900</u>	<u>226,188,218</u>
PROVISION FOR UNFUNDED PAST SERVICE PENSION COSTS.....		<u>12,700,000</u>	<u>13,400,000</u>
RESERVES AND OTHER LIABILITIES.....		<u>6,268,574</u>	<u>4,333,597</u>
Total liabilities.....		<u>308,628,186</u>	<u>300,120,547</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—111,992 shares (135,887 shares in 1962) (note 4)		<u>5,080,254</u>	<u>6,134,304</u>
Common stock outstanding—			
6,096,965 shares (6,073,070 shares in 1962).....		268,947,896	267,893,846
Capital surplus (note 4).....		1,118,653	1,204,679
Retained income (note 1), including			
\$1,125,000 in each year appropriated for sinking funds.....		384,203,274	372,857,113
Total shareholders' equity.....		<u>654,269,823</u>	<u>641,955,638</u>
CONTINGENT LIABILITIES (note 5)			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....		<u>\$962,898,009</u>	<u>\$942,076,185</u>

GREAT NORTHERN RAILWAY COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 1963

1. In the accompanying financial statements, Federal income taxes have been reduced and net income correspondingly increased by approximately \$7,300,000 in 1963 (\$6,500,000 in 1962) through acceleration of depreciation and amortization deductions for income tax purposes and 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, 1963 amounted to \$48,300,000, including adjustment of prior years' estimate (\$40,000,000 at December 31, 1962).

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.

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, \$10,032,734 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, 1963 (as shown by their unaudited financial statements) amounted to \$24,944,255. The Company's equity in net income of unconsolidated subsidiaries amounted to \$1,534,576 in 1963 (\$1,517,583 in 1962) of which \$510,000 was received during 1963 as dividend income (\$525,000 in 1962).

4. Treasury stock includes 84,828 shares at December 31, 1963 reserved for officer and key employee options at prices ranging from \$29 to \$58 a share. During the year ended December 31, 1963, the Company reissued 23,895 shares of treasury stock upon exercise of stock options.

Capital surplus has been reduced by the excess of stated value over proceeds of stock issued upon exercise of stock options, \$86,026.

5. At December 31, 1963, the Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately \$12,600,000. Also, the Company is contingently liable as guarantor along with other railroads for its proportion (approximately 2.6%), 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 \$104,600,000.

The Company and another company with which it shares majority ownership of the stock of Portal Pipe Line Company are parties to a throughput agreement with the pipe line company. Under this agreement these two proprietors have an equal, but several, obligation to provide shipments of petroleum through the pipe line which, with other traffic generated by the pipe line, will be sufficient to enable the pipe line company to satisfy all of its expenses, liabilities and debt obligations or, if sufficient funds are not so provided, to advance sufficient funds to enable the pipe line company to meet such obligations. In calculating the proportion of any deficiency which each of the two proprietors must advance, each is credited with petroleum provided by it for shipment through the pipe line; hence the Company's share, which is not presently determinable, of any such cash advances may be greater or less than its proportionate interest in the pipe line company. The total outstanding debt of Portal Pipe Line Company at December 31, 1963 amounted to \$13,527,000 and is payable in quarterly instalments of \$187,875 from December 31, 1964 to September 30, 1982.

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, 1963, 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, 1963 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.

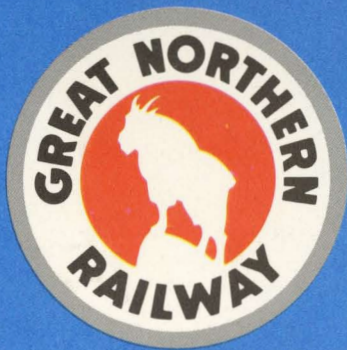
St. Paul, Minnesota
February 18, 1964

Paul, Harwick, Mitchell & Co.



THIS is the 75th annual report which the Great Northern Railway Company has made to its shareholders. Inasmuch as we commemorated our 100th year of service in 1962, it seems appropriate that this should be the occasion for a brief noting of the company's corporate history and its leadership. □ The present-day Great Northern had its genesis in the Territorial Legislature of Minnesota, which on May 22, 1857 chartered the Minnesota & Pacific Railroad Company. The pioneer company began construction from St. Paul to nearby St. Anthony, but had difficulties, was unable to fulfill its charter obligations and forfeited its rights and privileges. □ The charter subsequently was transferred to the St. Paul & Pacific Railroad Company, incorporated March 10, 1862. The original 10 miles of line to St. Anthony were quickly completed, and, on June 10, train service was inaugurated between St. Paul and the community which was to become Minneapolis. □ In 1878, young James J. Hill and a trio of partners acquired the St. Paul & Pacific, and the following year reorganized the properties as the St. Paul, Minneapolis & Manitoba Railway Company, incorporated

May 23, 1879. This launched an era of accelerated expansion and development which were to earn Mr. Hill the accolade of "Empire Builder." □ The Hill group in 1881 purchased a "paper railroad," with broader corporate limits than that of the Manitoba, acquiring a charter issued in 1856 to the Minneapolis & St. Cloud Railroad Company—a name that on September 18, 1889 was changed to Great Northern Railway Company. □ On February 1, 1890, the Great Northern took over the properties of the St. Paul, Minneapolis & Manitoba, and at the end of that year was operating 3,260 miles of road. The main line to the West Coast was completed January 6, 1893. □ Only seven men have put their signatures to the 75 annual reports of the Great Northern Railway. The company's six past presidents are pictured, left to right, in the "still life" above: James J. Hill, who became chief executive of the St. Paul, Minneapolis & Manitoba in 1882 and served as president of the Great Northern until 1907; Louis W. Hill (1907-1912 and 1914-1919); Carl R. Gray (1912-1914); Ralph Budd (1919-1931); William P. Kenney (1932-1939); and Frank J. Gavin (1939-1951). John M. Budd has been president since 1951.



GREAT NORTHERN RAILWAY COMPANY, SAINT PAUL, MINNESOTA