

Great Northern Railway

1964 ANNUAL REPORT

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- J. STEWART BAKER, *Director*
The Chase Manhattan Bank, New York
- JOHN M. BUDD, *President*
Great Northern Railway Company, St. Paul
- THOMAS L. DANIELS, *Director Emeritus*
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- F. PEAVEY HEFFELFINGER,
Chairman of the Board, Peavey Company
Minneapolis
- GRANT KEEHN, *President*
The Equitable Life Assurance Society
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- J. HOWARD LAERI, *Executive Vice President*
First National City Bank, New York
- WILLIAM H. LANG, *President*
Foley Brothers, Inc., St. Paul
- PHILIP H. NASON, *President*
The First National Bank of Saint Paul
St. Paul
- WALTER G. SEEGER, *Director*
Whirlpool Corporation, St. Paul
- FREDERICK K. WEYERHAEUSER,
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Weyerhaeuser Company, St. Paul
- ROBERT B. WILSON, *President*
Warm Springs Lumber Co., Inc.
Portland, Oregon

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Executive Department, St. Paul
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Operating Department, St. Paul
- C. E. FINLEY, *Vice President*
Traffic Department, St. Paul
- ANTHONY KANE, *Vice President and*
General Counsel, St. Paul
- JOHN A. TAUER, *Vice President*
and Comptroller, St. Paul
- CLYDE A. PEARSON, *Vice President*
Personnel Department, St. Paul
- RICHARD M. O'KELLY, *Secretary*
and Treasurer, St. Paul
- *Mr. Jerrow retired on February 1, 1965
and was succeeded by John L. Robson as
Vice President, Operating Department.

Transfer Agents

FINANCIAL OFFICE

40 Wall Street, New York, N. Y. 10005

JOHN E. ADAMS, JR., *Assistant Secretary*
and Assistant Treasurer, New York

EDWARD V. FINK, *Assistant Treasurer*
and Transfer Agent, New York

GERARD J. MONTGOMERY
Transfer Agent, New York

ADOLPH SELANDER, *Assistant Treasurer*
and Transfer Agent, St. Paul

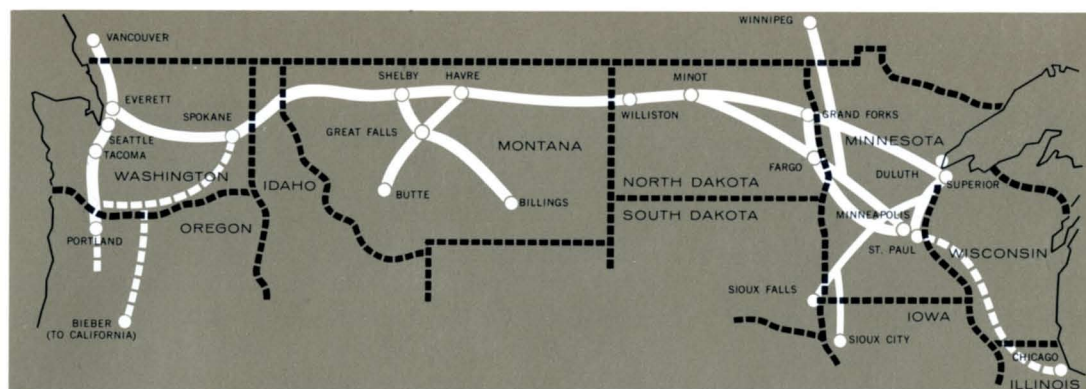
GARRETT F. STEINHIBEL, *Assistant Secretary*
and Transfer Agent, St. Paul

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

Great Northern Railway Company

76th ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1964

Our cover photo, made in early October, speaks almost rapturously of the delights of Indian Summer in the Cascade Mountains of Washington State. But beauty, it is said, is in the beholder's eye, and for railroaders and "buffs" the scene is notably enhanced by the crisp, clean lines of a spanking-new stretch of "high iron." The 1964 project—part of Great Northern's long-range Index Line Change—included two channel relocations in the paralleling Skykomish River, permitting a significant reduction of track curvature.



Highlights

1964

1963

FINANCIAL DATA

Net Income.....	\$ 28,866,329	\$ 29,273,689
Per Share.....	\$4.71	\$4.80
Dividends Paid.....	\$ 18,328,070	\$ 18,242,929
Per Share.....	\$3.00	\$3.00
Shareholders.....	44,365	44,651
Operating Revenues.....	\$250,387,871	\$242,810,448
Operating Expenses.....	194,955,985	186,364,676
Federal Income Taxes.....	4,206,142	4,990,415
Available for Fixed Charges.....	37,008,272	37,227,130
Fixed Charges.....	\$ 8,141,943	\$ 7,953,441
Times Fixed Charges Earned.....	4.55	4.68
Return on Property Investment.....	3.71%	3.97%
Cash and Temporary Investments Dec. 31.....	\$ 73,815,134	\$ 70,391,669
Working Capital—Dec. 31.....	60,824,019	55,097,532
Funded Debt—Dec. 31.....	\$237,611,772	\$237,754,218

OPERATING AND WAGE STATISTICS

Miles of Road Operated.....	8,261	8,262
Revenue Net Ton Miles (millions).....	17,193	16,762
Revenue Passenger Miles (millions).....	423	412
Ratios to Revenues:		
Net Income.....	11.5%	12.1%
Transportation Expenses.....	37.7%	37.0%
Maintenance Expenses.....	32.2%	32.2%
All Operating Expenses.....	77.9%	76.8%
Employees.....	17,002	17,439
Wages Paid.....	\$117,860,466	\$115,335,187
Employment Costs		
(Payroll plus Benefits, Payroll Taxes, etc.).....	\$133,654,273	\$129,586,818

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD AT ST. PAUL ON MAY 13, 1965



The year 1964 began as the best in Great Northern's history, with record earnings in the first half. Events of the third and fourth quarters, however, changed the picture substantially. While revenues for the year were \$7.6 million better than in 1963, net income decreased from \$29.3 million to \$28.9 million. Earn-

ings per share dropped from \$4.80 in 1963 to \$4.71 in 1964. Dividends were continued at the ratio of \$3.00 per share.

Great Northern suffered unprecedented flood damage in June in the Rocky Mountains. The main line in the area was out of service for three weeks, and the disruption in train operation and costly repair work reduced earnings by 29 cents per share.

The movement of grain dropped sharply in the third quarter because of a change in the government support program and a lengthy strike of grain handlers at the Duluth-Superior port.

In the final quarter came the settlement of a protracted wage dispute with non-operating employees, including an increase in pay retroactive to January 1964 which was taken into account in December. This, with other changes in compensation agreed to earlier in the year, reduced net income by 44 cents per share.

Labor matters were prominent in the affairs of the railway industry last year. The prolonged work rules case involving operating crafts was concluded, with management winning greater flexibility in adjusting the size of crews, conditioned on generous protection for affected employees. Excess crew laws were repealed in North Dakota and California, and similar action is now being considered by the legislatures in Oregon, Washington and Wisconsin.

A presidential emergency board recommended financial benefits for certain non-operating employees whose jobs are eliminated — contrary to the previously established principle of relief for those out of work because of technological improvements. An agreement was nevertheless worked out in line with the recommendations.

Employment costs in 1966 will be about \$11.8 million higher than in 1963 as a result of last year's wage settlements if forces remain at present levels.

Competition with other modes of transport makes it difficult to obtain additional revenue to offset the higher costs. The trend has been toward reducing freight rates to retain present traffic and attract new. Rate concessions are being effected with the heavier loading per car that is possible with recently acquired equipment. However, the cost-price squeeze is being felt, and presents a challenge to management in 1965 and in years to come.

In keeping with the trend toward lower rates with heavier loading per car, capital expenditures for freight equipment were increased in 1964 and will be further increased in 1965. Tax savings from the use of guideline depreciation help in meeting the cost of these expanded programs.

Progress on the proposed merger of Great Northern, Northern Pacific, Burlington, and Spokane, Portland and Seattle Railways has been slow. The hearing examiner issued a report on August 24, 1964 in which he recommended approval of the plan subject to certain conditions. Exceptions to the report were filed on January 15, and replies to the exceptions on March 15, 1965. Oral argument should be scheduled later in the year, after which the Interstate Commerce Commission will decide the case.

Great Northern ended 1964 with properties in excellent condition. An ample program for proper maintenance was progressed throughout the year and will be continued during 1965. Cash and equivalent, as well as working capital, showed gains during the year.

Predictions indicate that business activity will continue at a lively pace in 1965. A large part of the 1964 crops remained in storage on January 1 for movement this year. We anticipate that with a normal harvest this year the results of Great Northern's operations will be similar to those for 1964.

The decision of Mr. W. L. McKnight not to stand for re-election in 1964 was received with regret. He had been a valuable member of the Board of Directors since 1940.

Mr. T. A. Jerrow found it necessary, for health reasons, to retire as Vice President - Operating Department on February 1, 1965 after forty years of service. His leadership during recent years of rapid and dramatic changes was outstanding.

I wish to pay tribute to Great Northern's officers and employees for the diligence with which they applied their many talents to their various tasks, and for their loyalty and devotion to the interests of the company.

March 15, 1965


PRESIDENT



The striking profile of a modern freight train — powered by five giant diesels — is seen on a high trestle west of Minot, N.D. In view are box cars, covered hoppers, piggyback cars, gondolas, tank cars and multi-level auto carriers.

Financial Review 1964 Business activity was at a high level as the year 1964 began, and early expectations that the national economy would remain prosperous throughout the year were realized. Great Northern's financial results, however, were not as favorable as in 1963 because of certain unexpected events which increased expenses. As a result, net income was off slightly, although revenues were up compared to the previous year. The flow of general traffic was particularly strong in the last quarter and into 1965.

NET INCOME Net income for 1964 was \$28.9 million, equal to \$4.71 per share, which compares with \$29.3 million, or \$4.80 per share, earned in 1963.

The decrease in net income is attributable to expenses for repair of flood damage and to the substantial rise in costs resulting from wage increases negotiated late in the year with many of the organizations representing our employees. Some of the increases in wages were made retroactive to the beginning of 1964. This resulted in heavy charges in the fourth quarter of the year for back pay.

The annual dividend of \$3.00 per share was continued in 1964 with quarterly payments of 75¢ per share.

Operating revenues of \$250.4 million were \$7.6 million more than in 1963. However, this increase of 3.1% in business was more than offset by higher operating expenses, which rose \$8.6 million or 4.6% above the level of the previous year. Taxes in 1964 were \$579,000 less than in 1963 primarily because of lower income taxes.

Fixed charges were earned 5.06 times before Federal income taxes and 4.55 times after taxes in 1964.

Other income, which consists largely of dividends and interest from investments, rose a substantial \$802,000 to a total of \$12.3 million, covering fixed charges by one and a half times. The increase largely came from temporary investments of cash. Short term interest rates were considerably higher during 1964 and, with more cash available for investment, interest income from this source amounted to \$2.0 million, much of which is tax-exempt.

The reported net income of Great Northern does not include its share of the undistributed net income

of partly or wholly-owned affiliated companies, including 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 other companies. During 1964, these earnings, which were not taken into account in Great Northern's earnings, totaled \$5.9 million, or 96¢ per share of Great Northern stock.

FINANCIAL POSITION

AT END OF YEAR At the end of 1964, cash, including temporary investments readily convertible into cash, amounted to \$73.8 million, an increase of \$3.4 million during the year.

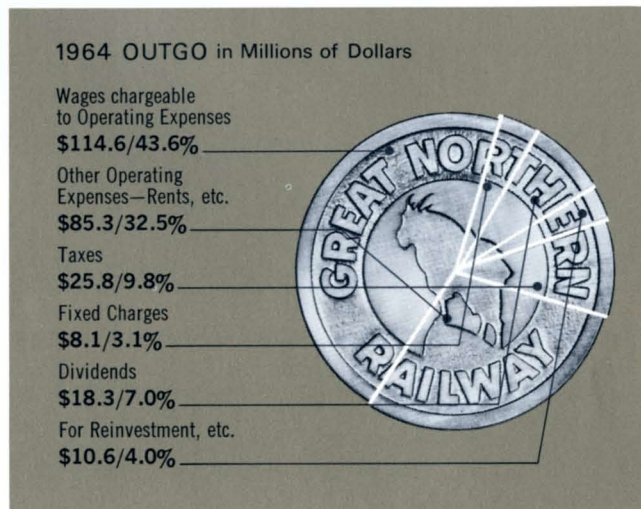
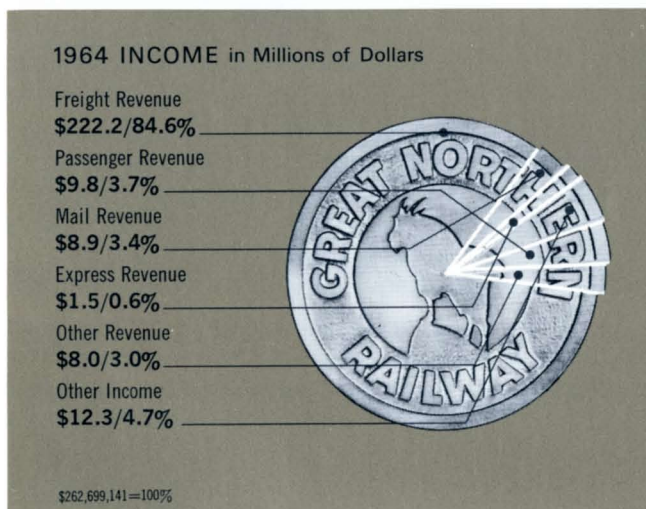
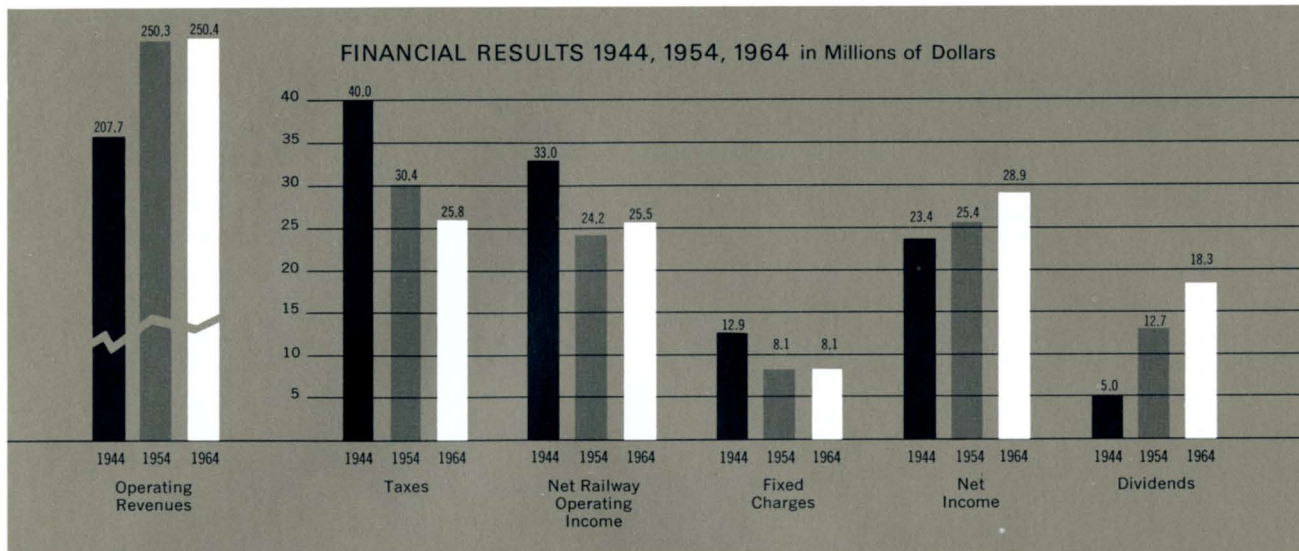
Current assets were \$112.2 million and current liabilities were \$51.4 million. Net working capital, the excess of current assets over current liabilities, totaled \$60.8 million compared with \$55.1 million at the end of 1963. The level of working capital is satisfactory and increased during the year, although a considerable amount of new equipment was purchased for cash.

Funded debt (bonds and equipment trust certificates) publicly outstanding at the end of 1964 was \$237.6 million, a reduction of \$142,000 during the year.

REPORT ON UNIFICATION Tangible progress was made during the year in unifying into a single modern system the Great Northern, the Northern Pacific, the Chicago, Burlington & Quincy, the Spokane, Portland and Seattle and the Pacific Coast railways. Following the close of public hearings in July, 1962, briefs were filed in January, 1963 by the principal parties to the case. On August 24, 1964 the Interstate Commerce Commission issued the recommended order of Examiner Robert H. Murphy, who had conducted the hearings.

The report recommended approval of the merger, subject to certain conditions for the protection of other railroads and of employees of the merging lines.

The examiner proposed opening of a new gateway at Crawford, Nebraska for the Chicago and North Western, which would give them an opportunity to compete for much longer hauls than at present. He also proposed to give the Milwaukee entrance into Portland, Oregon, where strong competition already exists between roads which have invested in facilities over a period of many years.



Additionally, several other conditions are proposed for these two roads to strengthen their positions.

The total effect of the proposed conditions goes well beyond making up for any damage which these two roads are likely to sustain. This is particularly true in view of the prospective merger of the North Western and Milwaukee, which has been announced as agreed upon in principle.

Exceptions to the examiner's report were due by January 15, 1965, and replies to the exceptions were

filed by March 15, 1965. Thereafter, the case will be before the Commission, and it is hoped that a decision may be reached by late 1965.

During the year there were developments in other railroad mergers of significance to Great Northern. The Chicago and North Western and the Chicago Great Western agreed to merge and have applied to the ICC for permission. The agreement on merger terms between Milwaukee and North Western already has been mentioned. Stockholders of Union Pacific and Rock Island also have approved an exchange which eventually will lead to a merger proposal.

Report on Operations

Freight traffic volume was unusually heavy in the first and fourth quarters of 1964, substantially exceeding both 1963 and the five-year average of 1960-64. The upsurge in traffic early in the year was largely grain moving because of heavy export demand, particularly to Russia. Operating earnings by quarters were distorted by the effect of the June flood and subsequent repair costs and, in the last quarter, by the retroactive wage settlements.

Maintenance programs on track and equipment were substantial. More new equipment was acquired than for many years as a part of a large capital expenditure program. As a result, the property is in excellent condition.

OPERATING REVENUES Sources of operating revenues were:

	Operating Revenues (Millions)		Per Cent Change
	1964	1963	
Freight	\$222.2	\$215.3	3.2-I
Passenger	9.8	9.6	2.1-I
Mail and express	10.4	10.4	
All other operating	8.0	7.5	6.1-I
Total	\$250.4	\$242.8	3.1-I

FREIGHT REVENUE Since revenues from freight service make up 89% of total operating revenues, Great Northern is vitally concerned with the general level of business activity. However, there is a great deal of diversity in freight revenue sources, and some are more sensitive than others to changes in the national economy. Diversity of the traffic mix is shown in the following table:

Commodity	1964 Revenues (Millions)	1963 Revenues (Millions)	Per Cent Change in 1964
Grain and grain products	\$55.8	\$54.9	1.0-I
Lumber and products .	40.2	37.8	6.3-I
Iron ore, including dock charges	19.0	18.7	1.6-I
Wood pulp, paper and paper products .	11.4	10.4	9.6-I
Forwarder traffic and less-than-carload traffic	10.0	9.4	6.4-I
Fresh fruits	6.3	5.4	16.7-I
Crude petroleum and petroleum products .	5.9	6.7	11.9-D
Alumina	5.2	5.0	4.0-I
Automobiles and trucks	5.2	5.7	8.8-D
Iron and steel articles .	5.2	4.8	8.3-I
Coal and coke	5.1	4.9	4.1-I

The largest single source of Great Northern revenue is grain. Wheat, barley and other grains are grown in every state served. Since yields are dependent upon moisture conditions which vary greatly from one year to another, the amount of rain each year is a matter of great concern.

The year 1964 started with 245 million bushels in storage in country elevators and on farms in Great Northern territory, awaiting movement. The heavy export loadings were over by the end of March, and from then until July 1, when a new price support law for wheat became effective, traffic was about normal. A strike of grain handlers at Duluth-Superior curtailed shipments in July and August, and revenues were far below normal, with the grain movement regaining a more satisfactory level in the Fall.

The 1964 crop was an excellent one. Good rains were received in almost all areas, particularly in western North Dakota and in Montana, where moisture had been depleted. At the start of 1965 an estimated 255 million bushels awaited movement.

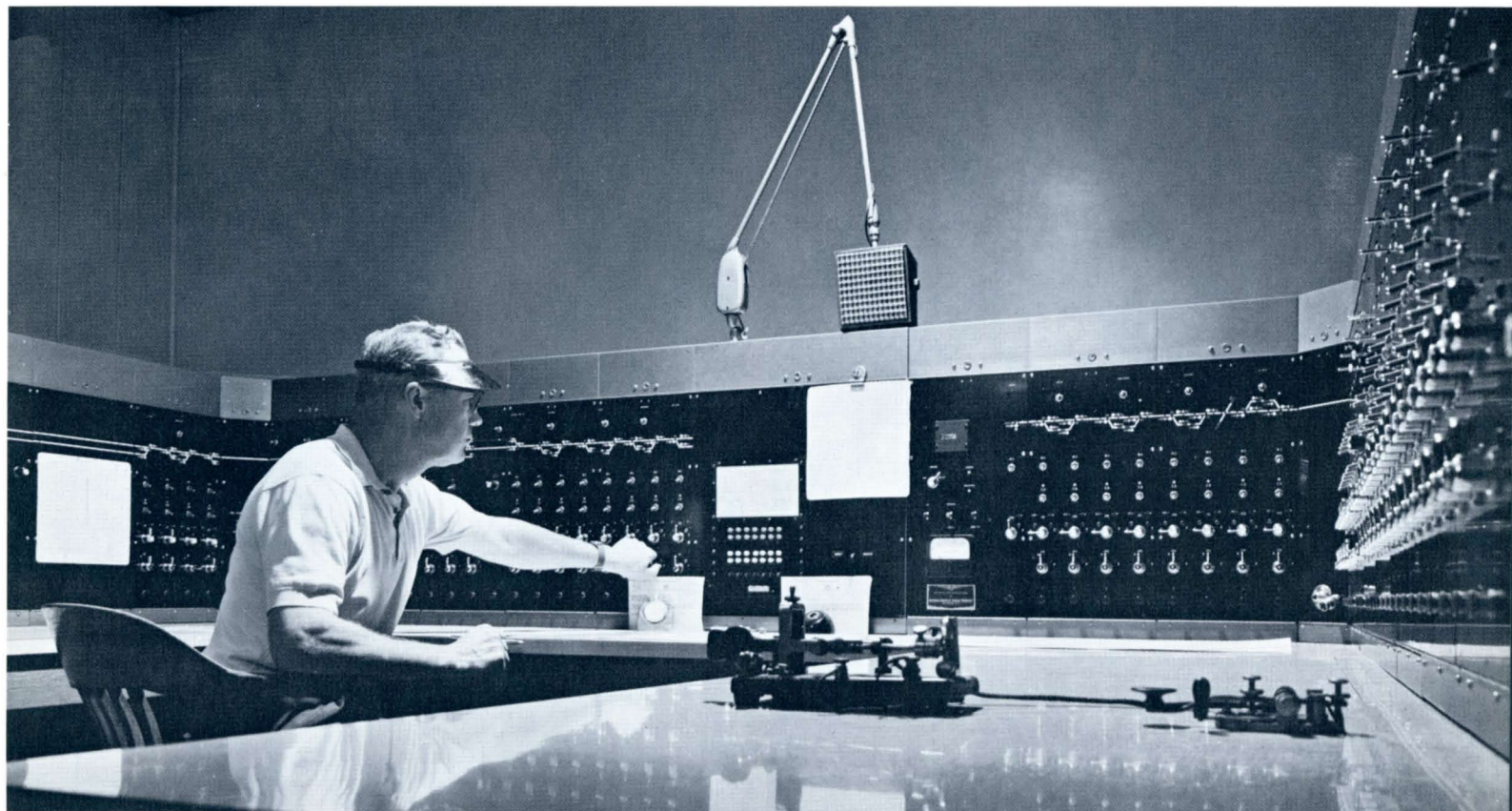
Present crop prospects are much more favorable than at this time a year ago. Both surface and subsoil moisture are adequate, and there was heavier than normal winter snow cover in all of the grain-growing areas.

Other crops in Great Northern territory were generally good in 1964. These include apples in the Wenatchee, Washington area, potatoes in the Red River Valley of Minnesota-North Dakota and in the Columbia Basin of Washington and sugar beets in the Red River Valley, the Columbia Basin and Montana. While crops were not quite so large as in 1963, satisfactory movements are expected as quality is good and prices have been favorable.

Iron ore movement in 1964 was almost exactly at the previous year's level. Inventories at the furnaces were normal at the beginning of the season in April, and shipments moved at a steady rate. Because of heavy consumption in the latter part of the season, ore was shipped from Allouez docks later than usual, the season closing on December 11. The total tonnage shipped over the docks was 14,250,000 tons. The forecast for 1965 indicates about the same tonnage of ore will move during the year if the economy continues at a high level and labor difficulties do not occur in the steel industry.

Among other important commodities included in Great Northern's traffic mix, lumber and smelter

At end of 1964 GN had 1,137 miles of line on which switches and signals are electronically controlled from train dispatchers' locations. Traffic over a 350-mile segment is remotely directed from this CTC board at Minot, N.D.



Piggyback vans loaded with fruit from central Washington are tied down on flat cars at Wenatchee, "Apple Capital of the World". Combination refrigeration and heating units protect fruit at all seasons, keeping it tree-fresh.



products produced considerably more revenue in 1964 than in the previous year.

Freight rate levels did not change materially during the year in spite of the heavier wage costs which had to be absorbed. A great many rates were adjusted downward to make shippers and receivers on Great Northern more competitive in their markets. Whenever possible, rate reductions are made on a basis which provides an incentive for better car utilization or for reduction in railroad operating costs. A new movement of iron ore resulted from a 32% reduction in rates from the Mesabi Range to Granite City, Illinois, based on the economy inherent in movement of 6,000-ton lots in a single unit train.

PASSENGER TRAIN REVENUE Passenger revenues were modestly higher throughout the year compared to 1963, except in June when travel was disrupted by the Montana flood. The number of passengers handled increased, and revenues of \$9.8 million were up 2.1% from 1963.

Mail and express revenues were unchanged at \$10.4 million in 1964.

During the year, four modern streamlined coaches and two railway post office cars were purchased secondhand and refurbished for Great Northern service, permitting the withdrawal of old and unsuitable equipment from service.

OPERATING EXPENSES Railway operating expenses in 1964 amounted to \$195.0 million, an increase of \$8.6 million from 1963. Since expenses increased more than revenues, the operating ratio—the proportion of operating revenue taken by operating expenses—increased from 76.8% to 77.9%. Transportation expenses, which include the cost of operating trains, stations and yards, were \$94.4 million, an increase of \$4.5 million during the year. This resulted from handling more traffic, payment of higher wages and detour expenses of \$900,000 during the June flood period.

Maintenance of way expenses rose to \$39.2 million from \$37.6 million in 1963. Included in the 1964 expenses are \$2.7 million for repair of June flood damage. Although this unexpected work tied up a considerable number of men and much equipment for an extended period, the scheduled program of track work was nearly completed. All of the new rail was laid as planned, but a small amount of relaying of secondhand rail had to be carried over to 1965.

Continued progress in mechanization of track work has to a large extent offset increases in labor costs. More work is being done with less man hours of labor. The result has been no deferral of maintenance, and the present condition of fixed properties is excellent.

Maintenance of equipment expenses at \$41.4 million in 1964 were up 2.2% from the level of the previous year. Condition of the freight car fleet was good, with only 2.2% of all cars requiring heavy repairs at the end of 1964. Diesel locomotives were also in good repair, with none stored and only the usual number undergoing routine repairs.

Because of continuing competition not only from other railroads but particularly from other modes of transportation, it is extremely important that fast and dependable rail service be combined with maximum operating efficiency. As to the latter, gross ton miles per freight train hour, which measures the best combination of trains and their speeds, rose to the highest figure on record in 1964 at 78,729. Freight car utilization at 1,211 net ton miles per car day was the highest since 1956. Freight train average speed was higher than ever before at 23.4 miles per hour.

EQUIPMENT SUPPLY Efforts were continued to improve the return of Great Northern cars by other railroads so as to provide an adequate supply of proper types for our customers. However, we continued to have problems in 1964 in spite of adding 1,040 cars to the fleet. For most of the year, the supply of cars was reasonably adequate, but there was a notable exception. The heavy export grain movement in the first quarter and the peak harvest movement of grain in August and September were handled without any great difficulty. However, in October and November an extreme shortage of grain cars developed. The total number of cars on line fell below 60% of ownership for about two months.

This incident illustrates the extreme difficulty in which Great Northern finds itself as a predominantly originating line without direct access to the major east-west gateways. Whenever there are not enough cars in the national fleet to meet all demands in periods of peak loading, the shortage is not evenly distributed and falls more heavily on Great Northern. However, there are favorable signs of an improving trend with acquisition of more cars by other lines, a better understanding of our requirements by the officers of the Association of American Railroads and a study in depth of the whole subject by the Interstate Commerce Com-

Powerful new diesels like these move heavy-tonnage freights at faster uniform speeds. This train's four units total 9,750 HP.



More and more grain produced in GN territory is moving in "high cube" hoppers like these. Their capacity: 4,500 cubic feet.



Box cars are getting bigger, too. This 60-footer with double plug doors easily handles a 135,538 pound cargo of newsprint.



Speedier loading and higher minimums make GN's new 86-foot articulated flat cars attractive to shippers of farm implements.



A new GN refrigerated piggyback van is conveniently loaded at an off-rail apple packing house near Wenatchee, Washington.



Here is another type of jumbo hopper seen increasingly on Great Northern. These new cars have a capacity of 196,000 pounds.



mission. Merger would materially improve this situation by making more cars available and by giving the merged company access to more gateways.

While the period of extreme shortage of grain cars was limited to a relatively short period, the supply of wide-door box cars, flat cars and hoppers was almost continuously tight. The car construction program was directed toward these needs and plans for 1965 are for more general purpose cars.

A new factor in connection with use of freight cars became effective January 1, 1964 when U. S. railroads adopted a multi-level scale of rental rates for use of each other's cars. The rates range from \$2.16 to \$7.74 per day compared to the former single rate of \$2.88. We believe that this has had some effect in returning cars to the home line more promptly. Additionally, rental payments to us were more than \$1 million over what we would have received under the former basis. This extra return for modern equipment provides an incentive to all railroads to add cars to their fleets rather than to depend on renting the cars of other railroads.

TAXES Taxes accrued in 1964 were \$25.8 million, a reduction of \$579,000. Federal income taxes were lower because of less taxable income, and property taxes were off slightly. Payroll taxes were up primarily because of increased tax rates required to pay greater benefits.

The railroad industry continues to be troubled by the unequal effect of property taxes on the competing modes of transportation.

Also, in some states the assessment methods used have caused a greater burden to fall on the railroads than on other taxpayers. This situation has been corrected in part, but the adjustment is still being made. Meanwhile, tax rates on property have tended to go up in recent years to meet constantly increasing demands for public services. Thus, progress toward equity in assessments has frequently been offset by higher rates. In contrast, most other forms of transport own little property except rolling stock, and are largely free from property taxes.

Barge operators on the inland waterways not only use the facilities provided for them by the Federal Government at a cost of millions of dollars but refuse to pay any form of user charges.

President Johnson has recommended that user charges be increased or established where not now applicable to those who use Government-supplied facilities for private gain. Progress in this direction would be helpful in balancing in some degree the unequal effect of taxation.

Improvements in Facilities

Great Northern's improvement program for 1964, which was almost entirely completed, was at the highest level in many years. Because of the increasing volume of traffic and the needs of industry for freight cars which more closely meet their transportation requirements, the program of capital expenditures was concentrated on equipment. Additions and betterments in 1964 totaled \$31.6 million with \$8.3 million for roadway and structures and \$23.3 million for equipment.

EQUIPMENT PROGRAM More units of freight equipment were added to Great Northern's fleet in 1964 than for many years. Altogether, 2,325 freight cars were obtained, 1,125 of them new cars purchased from car builders. Their specifications are in line with the trend toward equipment of larger size and weight-carrying capacity. In addition, 1,200 secondhand cars, out of service on other railroads, were given heavy repairs and added to the Great Northern fleet.

Nearly all of the new cars are of general purpose types, with modern design features attractive to shippers. All are equipped with roller bearings, and many of the box cars and flat cars have cushioning devices to reduce damage to lading.

The new cars acquired include 600 50-foot box cars of 70-ton capacity; 100 gondolas; 100 open-top hopper cars; 25 special air slide covered hopper cars; and 50 tank cars of 25,000-gallon capacity. To meet increased demands to load packaged lumber and farm implements, 100 flat cars were added.

In the field of grain transportation, the covered hopper car is coming into use in great numbers. These big cars are easy to load and unload and give assurance against leakage losses. An increasing share of grain transportation is handled by these cars, which hold nearly twice the amount of grain carried by an ordinary box car. Great Northern acquired 150 of these cars in 1964.

Western Fruit Express Company acquired 100 new mechanically refrigerated cars. These cars can maintain temperatures at any desired level and are especially suitable for frozen foods and fruits and vegetables which require accurate control of temperature. In addition, Western Fruit Express purchased 100 new large size insulated box cars for movement of canned goods and other commodities

requiring protection from extreme temperatures.

The locomotive program for 1964 included 18 new 2500 HP road freight units which were obtained as replacements for 15 to 20-year-old diesel units of lesser horsepower which were turned in to the builders. The new units are of substantial assistance in reducing maintenance costs and in moving today's heavy trains at high speeds.

FIXED PROPERTY IMPROVEMENTS

Capital expenditures for roadway and structures included completion of work on a 1.8-mile line change project on the west slope of the Cascade Mountains in Washington. This project was undertaken to reduce sharp curves so that higher speeds can be maintained and maintenance costs reduced.

Other major projects include installation of centralized traffic control on segments of the main line between Juanita and Nolan, North Dakota and Merritt and Mukilteo, Washington—projects totaling 133 miles in length.

Normal replacements of rail, ties and ballast were carried out during 1964. New 115-lb. rail was laid on 77 miles of main line, about the same as in 1963, and 378,000 yards of rock ballast were applied. Except in a few locations where not feasible, the new rail was laid in welded quarter-mile sections. Secondhand rail recovered was used to replace light, worn-out rail on 57 miles of branch lines.

PLANS FOR 1965 Although the 1964 improvement program was well above the average of recent years, an even heavier capital program is budgeted for 1965. The equipment program includes expenditures of \$24.8 million. Principal items are:

- 30 2500 HP diesel freight units
- 300 100-ton jumbo covered hoppers
- 300 70-ton, 60-foot flat cars
- 400 70-ton, 50-foot wide-door box cars
- 100 70-ton gondolas
- 50 70-ton wood chip cars
- 15 100-ton bulkhead flat cars

In addition, Western Fruit Express will acquire 200 mechanical refrigerators and 100 insulated box cars at a cost of \$7.8 million.

For improvements to fixed property in 1965, it is planned to spend \$6.9 million. Centralized traffic control will be extended from Merritt to Columbia River in Washington. In the Rocky Mountains, line changes will be carried out at two locations, near Summit and Red Eagle, Montana. Other line straightening projects will be undertaken on 8.1 miles of main line in the rolling prairie country near Blaisdell, North Dakota and Bainville, Montana. To maintain the high standard of track structure, 52 miles of main line will be relaid with new rail and 63 miles of secondary lines will be relaid with secondhand rail.

Freight trains roll faster over the Cascade Mountains since completion of the 1964 Index line change project. Substantial reduction in track curvature was accomplished here by altering the channel of the Skykomish River.



Service Improvements and Traffic Development

The railroad "plant" is remarkably flexible, with the capacity for handling greatly increased volumes of traffic without comparable increases in cost.

While this inherent advantage over other forms of transport has been blunted by artificial subsidy and regulatory advantages conferred on our competitors, its exploitation is still one of the most promising avenues for improving earnings.

Great Northern is seeking constantly to make its services ever more attractive to present customers while vigorously developing new traffic for the railway. Some of these activities—such as competitive pricing and the acquisition of new equipment to meet the specialized needs of shippers—are discussed elsewhere in this report.

Occasionally, a significant improvement is ushered in almost unheralded. The publication of a new "clearance circular" by Great Northern early in 1965 marked the culmination of an important long-range program to increase main line tunnel and bridge clearances, permitting the handling of higher and wider loads. Our governing clearance between the Twin Cities and Seattle is now 19 feet above top of rail—the best of any of the northern transcontinentals.

In early February 1964 Great Northern announced a full day's reduction in eastbound freight schedules between the Pacific Northwest and Chicago, matching a comparable cut in westbound schedules late in 1963. With trucks rolling over more and more miles of super highway, faster rail service is a competitive necessity.

INDUSTRIAL EXPANSION Ninety-nine new industries were located on Great Northern trackage in 1964. Nearly 60% were warehouses and fertilizer blending plants.

The biggest single location of a new industry was electrifying news in the growth-conscious Pacific Northwest, where it was announced that Intalco—a jointly owned venture of American Metal Climax, Inc., Howe Sound Company and Pechiney of France—would build a \$60 million aluminum reduction plant northwest of Bellingham, Washington.

The property acquired by the new company is in

the Mountain View Industrial District, owned principally by the Port of Bellingham and the Great Northern Railway. Facing salt water on the Strait of Georgia, it is near Ferndale, a station on GN's Seattle-Vancouver, B. C. line. Preparation of the site for construction began in early September. The plant when completed in 1966 will produce 76,000 tons of aluminum ingots annually.

The year also saw construction well advanced on a third potline at the big Anaconda aluminum reduction plant at Columbia Falls, Montana. This and the Anaconda Company's multi-million dollar copper ore concentrator newly-opened at Butte are pictured on another page.

The future of Great Northern's iron ore traffic brightened materially on November 3, 1964 when the voters of Minnesota, in overwhelming majority, passed the so-called taconite amendment to the state constitution. This guarantees for taconite pellet plants equality in taxation with other manufacturing enterprises. Iron ore pellets have been produced in Minnesota for several years at plants not served by Great Northern and also at other locations in the United States and Canada. Their use has proved so successful in blast furnaces that they are greatly in demand, and a rapid shift away from ordinary iron ores is in progress.

Following passage of the amendment, the Hanna Mining Company announced plans for immediate construction of two plants of 2.0 and 2.4 million tons annual capacity near Nashwauk and Keewatin, Minnesota. They will be completed late in 1966 or early 1967. In addition, a plant was started by United States Steel Corporation, and others are under consideration by Jones & Laughlin Steel Corporation and other mining companies.

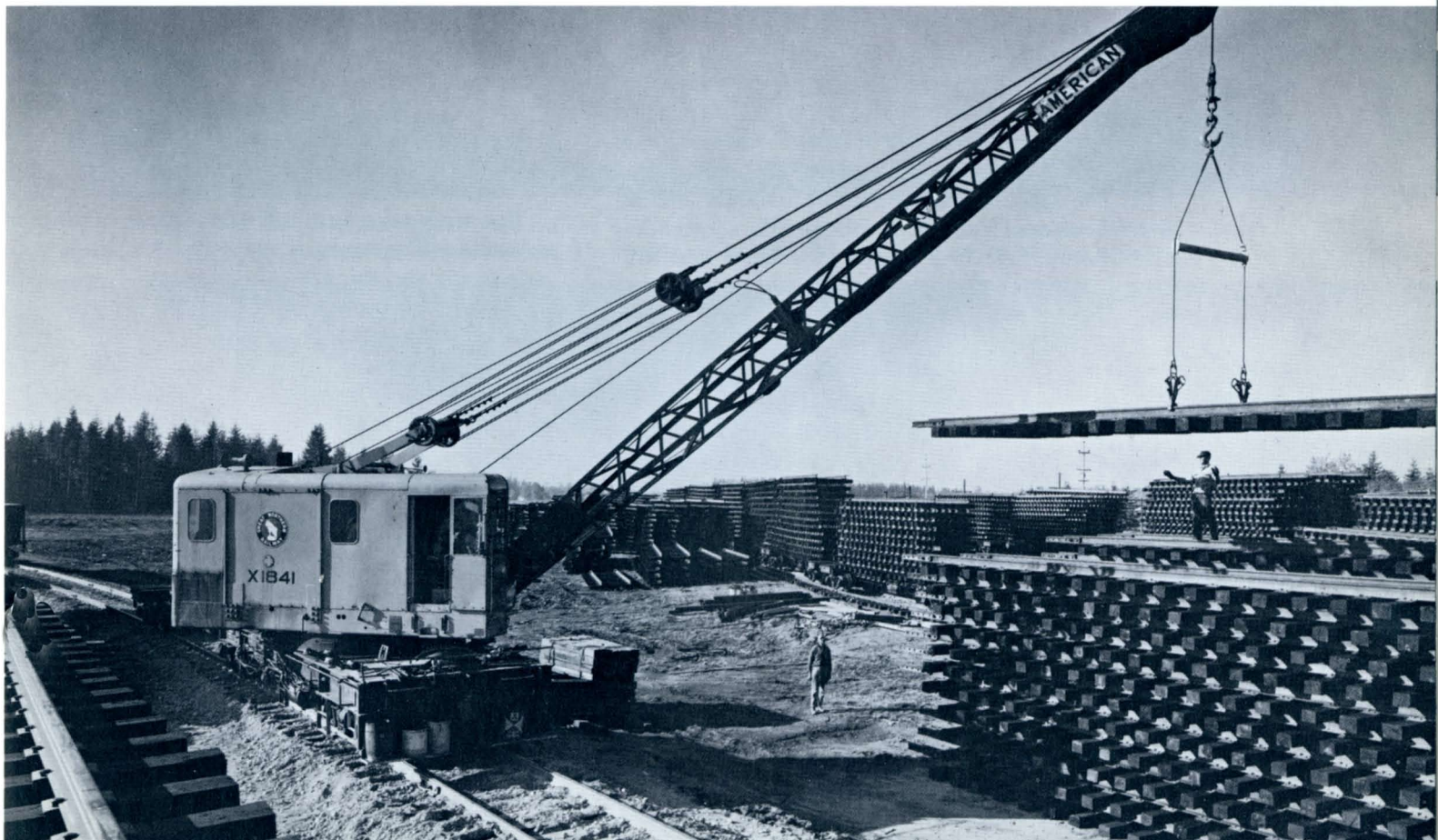
The forest products industry is important to Great Northern, and several new lumber, pulp and paper facilities were under construction or completed in our territory in 1964. In Montana, the Plum Creek Lumber Company's new plywood plant at Columbia Falls, with an estimated capacity of 60 million board feet per year, went into production early in 1965, while at Libby the J. Neils Division of the St. Regis Company increased the capacity of its lumber plant. Among several projects underway on the West Coast is construction of a \$7 million chemical plant at Bellingham by the Puget Sound Pulp Division of the Georgia-Pacific Corporation.

Other facilities completed in 1964 include Fairway Foods' \$800,000 distribution warehouse at

Long strings of multi-level auto carriers are unloaded at Convoy Company's big distribution center at Seattle, on the site of GN's historic Smith Cove ocean terminal. Land fill has created 35 acres of new industrial property here.



Pre-fabricated panel track was used in the 1964 construction of an 8-mile spur serving Mobil Refining Company and the Intalco aluminum plant now being built in the Mountain View Industrial District northwest of Bellingham, Wash.



Fargo, North Dakota; Safeway Stores' \$3 million food distribution center at Spokane, Washington; Finning Tractor Company's \$2.5 million plant in the South False Creek Industrial Area of Vancouver, B. C.; and a variety of smaller plants.

RAIL SERVICE TO ALASKA An important new transportation venture, with Great Northern as a participant, was "launched" in June when the streamlined trainship S. S. Alaska sailed on its maiden trip from New Westminster, B. C. to Whittier, Alaska.

The occasion marked establishment of the new freight route and service between the United States, Canada and Alaska, in which the Great Northern, Northern Pacific, Union Pacific and Milwaukee railways have joined with the Alaska Trainship Corporation, owner of the S. S. Alaska. All five firms share ownership of Delta Alaska Terminal, Ltd., a Canadian corporation formed to construct rail-ship interchange facilities on property leased from the New Westminster Harbour Board.

The 520-foot trainship departs weekly from New Westminster to Whittier, connecting there with the Alaska Railroad. The speedy vessel makes possible substantial savings in time and transportation costs on freight moving to and from Seattle.

DAMS ON GREAT NORTHERN Because big dam construction generates substantial rail traffic, while flood control, irrigation and hydro-electric features have a direct bearing on future development of our territory, it is appropriate that news on this subject be noted here.

The big news in 1964 was ratification by the Canadian Parliament of the Columbia River Treaty, approved by the U. S. Congress in 1961. This cleared the way for construction of giant Libby Dam, on the Kootenai River in Northwestern Montana. The \$350 million project will impound nearly five million acre feet of water, helping to control the often destructive river. Power capacity at site will be only 420,000 kilowatts, but another million kilowatts will accrue to downstream dams.

President Johnson's early 1965 request of \$7,500,000 from Congress for the Corps of Engineers to begin construction on the Libby project is expected to enable award of the first contracts for that work early in 1966. An initial contract will be for construction of 22 of the 60 miles of Great Northern main line which will have to be relocated from the reservoir area.

Personnel During 1964 the number of employees in Great Northern's work force declined to the lowest level in many years, although the volume of traffic handled gained slightly. This improvement in productivity of individual employees was made possible by the company's continuing investment in improved equipment and more efficient facilities. The rise in wage rates and employee benefits resulted in payment of more compensation to the smaller number of employees. Accordingly, employee productivity in terms of traffic units per dollar of wage cost declined slightly in 1964 as shown in the table on page 16. It is regrettable that the effect of continually rising wage rates and inflexibility in some work-rules reduces job opportunities by making increased mechanization of work more and more essential.

LABOR RELATIONS The work-rules controversy with operating employees, which began in 1959, was settled in May 1964. The issue was studied by two Presidential boards, twice referred to the U. S. Supreme Court, and considered by a special arbitration board created by Congress. The most important gain was the right to eliminate all firemen with less than 2 years seniority, while other firemen with 2 and less than 10 years seniority on January 25, 1964 had the option of transferring to a new job with 5 years guaranteed pay based on earnings in the previous year.

Under the arbitration award, Great Northern separated a total of 241 firemen who received varying amounts of separation pay totaling \$926,000. This included 139 firemen who were eligible for transfer to other jobs but who elected to take separation pay instead of work on Great Northern.

The net wage saving for the jobs eliminated was over \$600,000 in 1964 and should approximate \$3 million in 1965.

The work-rules case affected only operating organizations. However, all employees, both those who man trains and the non-operating group, which includes clerks, maintenance-of-way men and mechanics of all kinds, have had on file for varying periods back to 1963, requests for increased wages, additional fringe benefits, and in some cases for new working rules which would give security against reductions in jobs. Most of these demands were settled by negotiation during 1964, except wages for

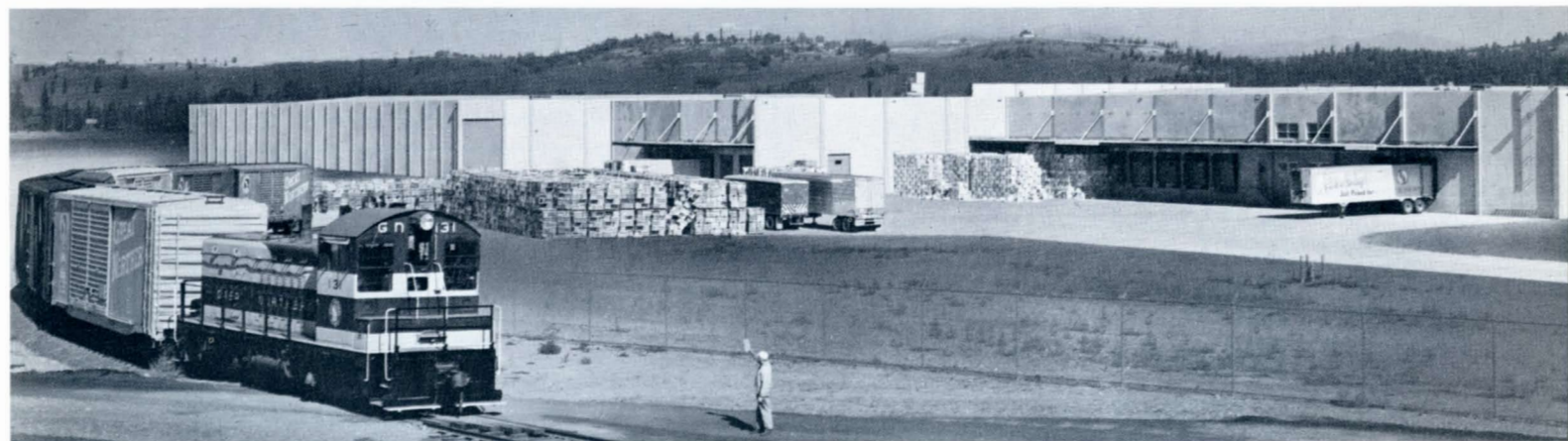
New potline at Anaconda Aluminum in Columbia Falls, Mont. will increase plant capacity 50%.



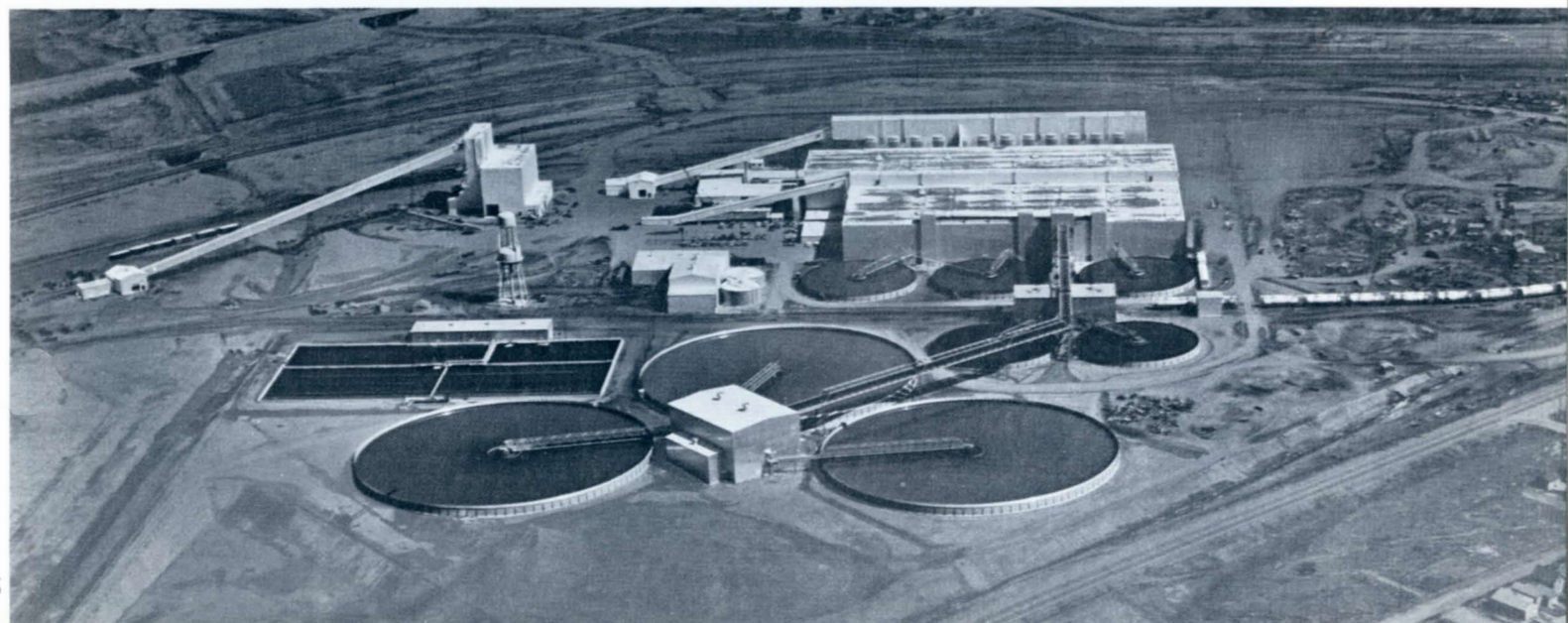
Extensive remodeling of an old facility produced this attractive new station at Minot, N.D., one of the busiest passenger terminals on GN.



Safeway Stores opened its new \$2½ million distribution center at Spokane, Wash. in 1964. Built on a 20-acre tract adjacent to Great Northern's Hillyard shops, the center serves Safeway's 47 stores in Spokane and surrounding area.



This is the most modern and efficient copper concentrator in the world, built by the Anaconda Company at Butte to bulwark Montana's role in the competitive copper market. The highly automated plant can process 42,000 tons of ore per day.



three relatively small groups of shop men and the job security issue involving five of the non-operating unions. The complexities of dealing with a large number of unions representing various crafts which have different interests were particularly evident during 1964.

Early in 1965, agreements were reached on all of the outstanding issues. In the non-operating group higher wages were made retroactive to January 1, 1964, and since the settlements were attained late in the year, substantial amounts of back pay were charged against income in the fourth quarter.

Altogether, increased wage costs in 1964 were \$5.5 million above the 1963 level. It is estimated that Great Northern's wage cost in 1965 will be \$9.2 million higher than in 1963, and in 1966 about \$11.8 million above 1963 at present employment levels.

TREND OF LABOR COSTS AND PRODUCTIVITY

Year	Average Wages Per Hour Worked*	Average Fringe Benefits Per Hour Worked	Total Labor Cost Per Hour Worked	Productivity (Traffic Units Per Dollar of Labor Costs)
1939	.80	.04	.84	234
1949	1.55	.15	1.70	144
1959	2.81	.52	3.33	117
1960	2.88	.56	3.44	119
1961	2.96	.62	3.58	118
1962	3.04	.66	3.70	126
1963	3.09	.67	3.76	133
1964	3.18	.70	3.88	132

*Excludes pay for vacation, sick leave and holidays.

Fringe benefits include: retirement and pensions; unemployment insurance; health, welfare and group insurance premiums; and vacation, sick leave and holidays. The cost of these benefits to Great Northern in 1939 was \$2,014,546. Twenty-six years later, in 1964, the cost had swollen to \$24,134,827.

During this same period the average wages per hour worked increased 298%, while the average fringe benefits per hour worked increased 1650%. In terms of total compensation per hour worked there was an increase of 362% in the two decades.

Financial and Corporate Great Northern is owned by a widely varied group of stockholders. On the last record date, they numbered 44,365 and lived in all 50 states and 12 foreign countries. The widespread ownership of the company is further indicated by the fact that the largest single holder owned only 2% of the 6,126,586 shares outstanding at the end of 1964.

While the number of shareholders remained about the same during the year, an increasing number of employees are acquiring an interest in their company by payroll deduction through the Monthly Investment Plan of the New York Stock Exchange. Shares are purchased on the open market with Great Northern assuming the minor expense for commissions.

FUNDED DEBT During 1964, funded debt outstanding in the hands of the public remained at about the same level. No change in mortgage bonds occurred and sales of new equipment certificates were held to approximately the same amount as maturities of already outstanding issues. Two new issues of equipment trust certificates totaling \$8,700,000 were sold during February and April at interest costs of 4.31% and 4.46% to maturity. A substantial part of the acquisitions were paid for in cash.

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
1964	178.7	58.9	237.6

Depreciation charges, which are included in the maintenance accounts as an expense item but do not require payment of actual cash, amounted to \$16.2 million in 1964 and are estimated at \$16.8 million in 1965. The cash made available from this source is more than sufficient to make the annual principal payments on present equipment trusts and the 20% cash down payment on new equipment.

EFFECT OF TAX LAWS

ON NET INCOME In order to encourage investment in certain facilities considered essential for the war effort, Federal tax laws for a number of years during and shortly after the Korean War

permitted amortization of the investment over a five-year period. The tax benefits from this law expired in 1962, but depreciation with no offsetting income tax benefits must still be charged on the company's books.

This book depreciation, however, is more than offset by other deductions authorized for income tax purposes but not charged on the company's books. Federal tax laws permit property acquired after January 1, 1954 to be depreciated on an accelerated basis for tax purposes. However, our net income is determined in accordance with Interstate Commerce Commission regulations which require that depreciation be reported on a straight line basis.

In addition, the Treasury in 1962 published new guide lines which permit use of shorter lives in calculating depreciation for tax purposes than have been authorized by the Commission.

The net effect in 1964 of all of the above tax adjustments, with consequent reduction in income taxes applicable to that year, results in net income \$5.6 million greater than would have been reported had the tax benefits not been taken. The corresponding effect of tax adjustments in 1963 was an increase in net income of \$5.8 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.

When Congress made revisions to the tax laws in 1964, an important change was the allowance in full of a credit of 7% of the cost of equipment and facilities, subject to certain restrictions on the amount of the credit which can be taken in any year. Great Northern expects to be able to take advantage of nearly all of this credit. We will also continue to use the accelerated depreciation methods for tax purposes when beneficial, as authorized by the Congress in 1954, and also will use the guide line lives permitted in 1962.

Since the changes in tax regulations and in the law were intended to encourage acquisition of new equipment, the resultant increased flow of cash was a factor in the large equipment purchase program of 1964 and the further increase planned for 1965.

The effect of this tax accounting is to reduce income taxes and to increase net income as shown in the table on the following page.

Portal Pipeline Company's attractive new headquarters and pumping station are pictured near Minot, N.D. The company, partially owned by GN, joins North Dakota and eastern Montana oil fields to markets in Minnesota.



Year	Change in Net Income Due to Amortization of Defense Facilities		Change in Net Income Due to Accelerated Depreciation and Guideline Lives		Combined Change Net Income	
	Amount (Millions)	Per Share	Amount (Millions)	Per Share	Amount (Millions)	Per Share
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	6.5-I	1.07-I	6.0-I	0.99-I
1963	1.3-D	0.22-D	7.1-I	1.17-I	5.8-I	0.95-I
1964 (est.)	1.3-D	0.21-D	6.9-I	1.12-I	5.6-I	0.91-I
1965 (est.)	1.2-D	0.20-D	6.7-I	1.10-I	5.5-I	0.90-I

AFFILIATES AND SUBSIDIARIES Great Northern received \$6.2 million in dividends in 1964—the same as in 1963—from the Chicago, Burlington & Quincy Railroad Company. Of the Burlington's capital stock, Great Northern and Northern Pacific each own equal amounts totaling 97.2% of the outstanding shares. Burlington net income of \$20.4 million in 1964 was not quite as good as in 1963 when \$21.4 million was earned. The principal cause of the decrease was higher wage costs.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, reported slightly less net income in 1964 compared to 1963. While gross revenue was up slightly, 1964 net income was down to \$1.9 million compared to \$2.2 million in 1963.

Late in December, extremely heavy rains over a large area in Oregon and California caused heavy flooding. The SP&S suffered considerably from washouts on its lines, disrupting traffic for several days. The expense of repair work is estimated at \$2.8 million. Because an event of this magnitude occurs infrequently and would distort the income statement, the Interstate Commerce Commission has authorized charging the cost of repairs to retained income instead of current operating expenses.

Great Northern received \$1.0 million in mortgage bond interest during the year and in addition sold to the SP&S \$1.5 million principal amount of its mortgage bonds.

The Western Fruit Express Company, 100% owned by Great Northern, operates 5,844 refrigerator cars as part of a pool including Burlington Refrigerator Express and Fruit Growers Express Company. Its gross revenues were slightly higher in 1964 compared to 1963, but net income fell from \$1.2 million to \$942,000. Higher wage costs were the cause of the decline. The company paid a dividend of \$510,000 to Great Northern.

Portal Pipe Line Company, 43% owned by Great

Northern, had a successful year with net income rising to \$768,000 from \$534,000 in 1963. During 1964 it completed a 108-mile extension of its line from North Dakota into eastern Montana, adding gathering systems in the Grenora, Dwyer and Goose Lake fields. The new work was paid for out of cash resources of the company. The pipe line system handled 8.7 million barrels of crude oil during the year and net income increased 44% over 1963.

LEGISLATION During 1964 the Congress considered transportation legislation first recommended by President Kennedy and supported by President Johnson in January 1964. The recommendations included the important proposal that adequate user charges be imposed for the commercial use of publicly-provided transportation facilities and for the elimination of Interstate Commerce Commission authority over minimum rates for transporting agricultural and bulk commodities. While bills to implement the minimum rate recommendation were given extensive hearings, they did not succeed in reaching the floor of the House of Representatives for a vote. President Johnson in his 1965 State of the Union, Budget and Economic Messages, has again called for "equal competitive opportunity under diminished regulation" in interstate transportation and has renewed proposals to assess user charges on transportation by air, inland waterways, and highways. It is expected that early this spring the President will send to the Congress a message on transportation which will contain his specific recommendations.

The incentive per diem bill mentioned in the 1963 report and which would be helpful in reliev-

ing box car shortages that adversely affect Great Northern, was recommended favorably by the Sen-

Commerce Committee, but did not reach the Senate floor for action. It has been reintroduced in the 89th Congress.

LITIGATION In the 1963 and earlier reports the two Divisions cases have been mentioned. The first and most important of these involves the apportionment of through freight revenues as between the eastern, midwestern and transcontinental railroads. Great Northern is a party to the proceedings as one of the transcontinental lines. The Interstate Commerce Commission decided the case adversely to the transcontinental lines and ordered new divisions effective July 1, 1963. A federal court in California has now set aside the Commission's decision. In remanding the case to the Commission for further proceedings, the court cited the insufficiency of the Commission's findings and conclusions. It also decided that the Commission failed to consider enough facts to be able to determine a just and reasonable division of rates. Whether there will be an appeal from this decision remains at the moment speculative. Great Northern has set up a reserve, which amounted to \$4.9 million at the end of 1964, against potential liability in this litigation.

The second Divisions case involved the eastern and midwestern roads and the issue again was the proper apportionment of through revenues. Great Northern was involved as to a portion of its traffic east of Montana. As mentioned in the 1963 report, a federal court suit against an unsatisfactory order of the Interstate Commerce Commission was decided in Great Northern's favor in February 1964. No appeal was taken but a new proceeding seeking increased divisions has been filed by the eastern roads with the Interstate Commerce Commission.

The Western Pacific control case concerned rival applications by the Southern Pacific Company and the Santa Fe Railway to control the Western Pacific line. The Great Northern intervened in this proceeding to protect its Bieber route. In February 1965 the Interstate Commerce Commission rejected both applications, leaving the Western Pacific independent as before.

Last year reference was made to the litigation in progress as to the per diem rate, the daily charge for the use by one railroad of cars belonging to another, together with a general investigation instituted by the Interstate Commerce Commission as to railroad car ownership. These proceedings are still in progress.

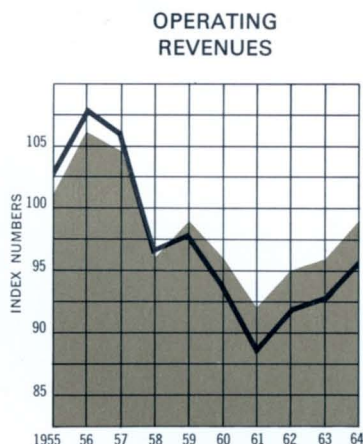


Trainship ALASKA, in its berth at the Delta Alaska Terminal near New Westminster, B.C., can carry 56 fully-loaded freight cars in enclosed decks, while operating at 18 knots on its run to Whittier.

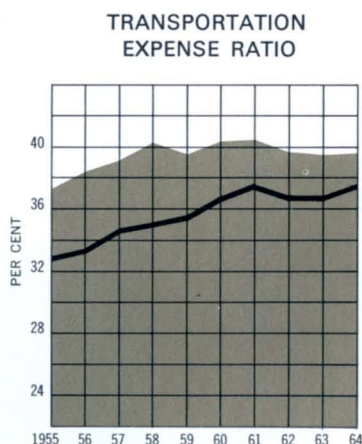
GREAT NORTHERN RAILWAY COMPANY

Change in Working Capital January 1 to December 31, 1964

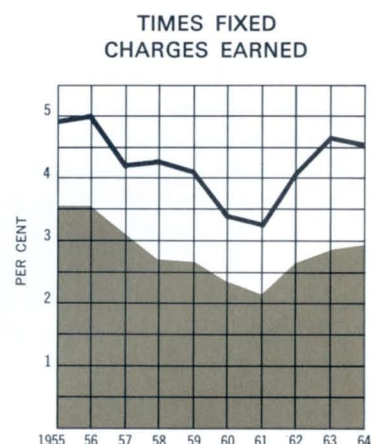
BALANCE AT BEGINNING OF YEAR.....		\$ 55,097,532
SOURCES OF WORKING CAPITAL:		
Net income	\$28,866,329	
Depreciation and other non-cash income items.....	20,290,767	
Sale of property, investments, and other assets.....	5,616,795	
Proceeds from equipment financing.....	8,700,000	
Other—net	1,160,773	64,634,664
		<u>\$119,732,196</u>
APPLICATIONS OF WORKING CAPITAL:		
Additions and betterments to property and equipment ...	\$31,631,046	
Reduction of long-term debt.....	8,928,318	
Dividends accrued	18,348,813	58,908,177
		<u>\$ 60,824,019</u>
BALANCE AT END OF YEAR.....		\$ 60,824,019
NET INCREASE IN WORKING CAPITAL.....		<u>\$ 5,726,487</u>



Both Great Northern and the railroad industry shared in the strong expansion of the economy in 1964, with operating revenues rising even more vigorously than during the previous year from the low level of 1961.



Favorable physical characteristics of Great Northern's main lines and continuing programs of improvements in facilities have permitted a ratio of transportation expense to revenues well below the industry average.



With stable net income and no increase in debt, our fixed charge coverage after Federal income taxes at 4.6 times was substantially better than the average of Class I railroads. Before tax coverage was 5.1 times.

1957-1959=100



GREAT NORTHERN RAILWAY

ALL CLASS I R.R. U.S.

1964 Class I Railroad statistics are preliminary figures.

A supplementary report containing additional operating and financial statistics may be obtained upon request to the Secretary of the Company at St. Paul, Minnesota 55101.

GREAT NORTHERN RAILWAY COMPANY

**Year ended December 31, 1964
with comparative figures for 1963**

Statement of Income

OPERATING REVENUES:

	1964	1963
Freight	\$222,238,732	\$215,314,583
Passenger, mail and express	20,181,461	19,987,901
Other	7,967,678	7,507,964
Total operating revenues	<u>250,387,871</u>	<u>242,810,448</u>

OPERATING EXPENSES:

Transportation	94,358,378	89,818,736
Maintenance of way and structures	39,192,019	37,584,484
Maintenance of equipment	41,370,696	40,488,407
Traffic, general and other	20,034,892	18,473,049
Total operating expenses	<u>194,955,985</u>	<u>186,364,676</u>

NET REVENUE FROM RAILWAY OPERATIONS	<u>55,431,886</u>	<u>56,445,772</u>
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TAXES AND RENTS:

Federal income tax (notes 1 and 2)	4,206,142	4,990,415
Payroll taxes	10,104,524	9,641,284
Property and other taxes	11,504,751	11,762,831
Equipment and joint facility rents—net	4,149,793	3,052,871
Total taxes and rents	<u>29,965,210</u>	<u>29,447,401</u>

NET RAILWAY OPERATING INCOME	<u>25,466,676</u>	<u>26,998,371</u>
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OTHER INCOME:

Dividends	7,078,529	6,940,870
Interest	3,184,960	2,585,498
Rent and miscellaneous income—net	1,276,919	699,860
Total other income	<u>11,540,408</u>	<u>10,226,228</u>
	<u>37,007,084</u>	<u>37,224,599</u>

INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT ..	<u>8,140,755</u>	<u>7,950,910</u>
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NET INCOME	<u>\$ 28,866,329</u>	<u>\$ 29,273,689</u>
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PER SHARE OF COMMON STOCK (Net income per share in 1964 was increased 91¢ (95¢ in 1963) by reduction in income taxes, as described in note 1, and was decreased 29¢ a share by Montana flood damage)

\$4.71 \$4.80

Statement of Retained Income

RETAINED INCOME AT BEGINNING OF YEAR	\$384,203,274	\$372,857,113
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NET INCOME FOR YEAR	<u>28,866,329</u>	<u>29,273,689</u>
	<u>413,069,603</u>	<u>402,130,802</u>

DEDUCT:

Dividends—\$3.00 a share in each year	18,348,813	18,263,528
Miscellaneous charges (credits):		
Loss on property retirements, less related income taxes	1,160,239	—
Reduction in amounts provided for unfunded past service pension costs by charges against retained income in prior years, less related income taxes	—	(336,000)
	<u>19,509,052</u>	<u>17,927,528</u>

RETAINED INCOME AT END OF YEAR (NOTE 1)	<u>\$393,560,551</u>	<u>\$384,203,274</u>
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See accompanying notes to financial statements.

GREAT NORTHERN RAILWAY COMPANY *Balance Sheet*

ASSETS	1964	1963
CURRENT ASSETS:		
Cash and temporary cash investments	\$ 77,107,781	\$ 73,716,503
Accounts receivable	17,447,884	16,664,694
Material and supplies, at cost	17,133,763	16,049,990
Other current assets	565,551	571,739
Total current assets	<u>112,254,979</u>	<u>107,002,926</u>
CAPITAL AND OTHER SPECIAL FUNDS	<u>2,526,480</u>	<u>3,306,659</u>
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies (note 3)	167,984,422	167,500,369
Other companies	4,906,923	5,087,330
Total investments	<u>172,891,345</u>	<u>172,587,699</u>
PROPERTIES:		
Road and roadway structures, etc.	558,724,479	556,627,654
Equipment	356,075,604	340,350,821
Total transportation property	914,800,083	896,978,475
Allowance for depreciation and amortization	251,789,785	243,558,752
Net transportation property	663,010,298	653,419,723
Non-operating property	13,073,684	12,673,031
Net properties	<u>676,083,982</u>	<u>666,092,754</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>14,452,850</u>	<u>13,907,971</u>
 TOTAL ASSETS	 <u><u>\$978,209,636</u></u>	 <u><u>\$962,898,009</u></u>

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY**1964****1963****CURRENT LIABILITIES:**

Accounts payable	\$ 12,498,664	\$ 14,671,008
Accrued payroll and vacation pay	12,093,613	9,913,239
Accrued taxes	16,485,047	17,133,492
Dividends payable	4,596,691	4,575,948
Other current liabilities	5,756,945	5,611,707
Total current liabilities (excluding debt due within one year)	<u>51,430,960</u>	<u>51,905,394</u>

DEBT DUE WITHIN ONE YEAR	<u>8,557,624</u>	<u>8,644,318</u>
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LONG-TERM DEBT:

General mortgage bonds:

DUE	RATE	AMOUNT
1973	5%	\$14,154,900
1976	4½%	14,508,000
1982	2¾%	40,000,000
1990	3¾%	37,500,000
2000	3¾%	37,500,000
2010	2¾%	<u>35,000,000</u>

	178,662,900	178,662,900
Equipment and other obligations, 2¾% to 5%	50,391,248	50,447,000
Total long-term debt	<u>229,054,148</u>	<u>229,109,900</u>

PROVISION FOR UNFUNDED PAST SERVICE PENSION COSTS	<u>12,700,000</u>	<u>12,700,000</u>
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RESERVES AND OTHER LIABILITIES	<u>11,555,563</u>	<u>6,268,574</u>
Total liabilities	<u>313,298,295</u>	<u>308,628,186</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—82,330 shares (111,992 shares in 1963) (note 4)	<u>3,771,812</u>	<u>5,080,254</u>
Common stock outstanding— 6,126,627 shares (6,096,965 shares in 1963)	270,256,338	268,947,896
Capital surplus (note 4)	1,094,452	1,118,653
Retained income (note 1), including \$1,125,000 in each year appropriated for sinking funds	<u>393,560,551</u>	<u>384,203,274</u>
Total shareholders' equity	<u>664,911,341</u>	<u>654,269,823</u>

CONTINGENT LIABILITIES (note 5)

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$978,209,636</u>	<u>\$962,898,009</u>
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GREAT NORTHERN RAILWAY COMPANY

Notes to Financial Statements December 31, 1964

1. In the accompanying financial statements, Federal income taxes have been reduced and net income correspondingly increased by approximately \$5,600,000 in 1964 (\$5,800,000 in 1963) through acceleration of depreciation and amortization deductions for income tax purposes. The corresponding aggregate reduction in Federal income taxes for the current and prior years included in retained income at December 31, 1964 amounted to \$51,500,000.

2. Federal income taxes in the statement of income have been reduced by \$2,150,000 (\$1,500,000 in 1963) as a result of the application of a tax investment credit and by \$535,858 (\$1,195,000 in 1963) as a result of the adjustment of prior years' provisions for income taxes.

3. Investments in affiliated companies include \$109,504,385 pledged under general mortgage bonds 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, 1964 (as shown by

their unaudited financial statements) amounted to \$25,814,168. The Company's equity in net income of unconsolidated subsidiaries amounted to \$1,356,070 in 1964 (\$1,534,576 in 1963) of which \$510,000 was received in 1964 and in 1963 as dividend income.

4. Treasury stock includes 55,166 shares at December 31, 1964 (84,828 shares at December 31, 1963) reserved for officer and key employee options at prices ranging from \$35 to \$58 a share. During the year ended December 31, 1964, the Company reissued 29,662 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, \$24,201.

5. At December 31, 1964 the Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately \$11,500,000. Also, the Company is contingently liable as guarantor along with other railroads for its proportion (approximately 2.4%), and in addition its proportionate share of any contingent obligations not met by other railroad participants, of the obligations of Trailer Train Company aggregating ap-

proximately \$96,983,302.

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 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, 1964 amounted to \$13,339,125 and is payable in quarterly instalments of \$187,875 through September 30, 1982.

Accountants' Report

The Board of Directors Great Northern Railway Company:

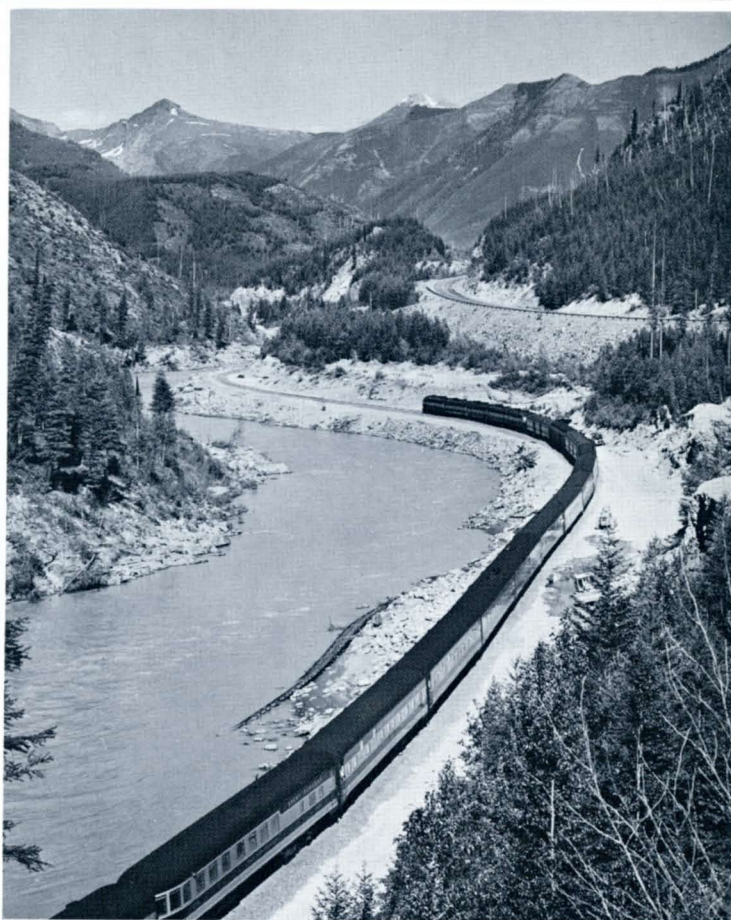
We have examined the balance sheet of Great Northern Railway Company as of December 31, 1964, and the related statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the 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 deferred income taxes, referred to in note 1 to the financial statements, and losses on property retirements have been deducted from retained income rather than from income for the year, such financial statements present fairly the financial position of Great Northern Railway Company at December 31, 1964 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, 1965

Leat. Harvick, Mitchell & Co.



21 Days in June, 1964

This will be remembered as the year of Great Northern's trial by water.

The most destructive flood in Montana history came with devastating swiftness. In a 36-hour period as much as 16 inches of rainfall centered along a hundred miles of Continental Divide where our main line crosses the Rocky Mountains. It fell on already-saturated ground, and on a heavy snow pack in the higher areas.

Early on June 8 the ugly, brawling waters began their unprecedented build-up in the lower valleys. At 5:25 a.m. GN's main line was severed by the first of many washouts. Little Bear Creek, paralleling the railroad, became a tiger, scouring its valley of trees and soil. A few miles west, the Middle Fork of the Flathead crested at historic levels.

As the flood waters subsided, Great Northern assayed its own toll . . . almost eight miles of mountain railroad washed away and other facilities demolished in the 60 miles west of Marias Pass.

But the most notable aspect of this trial by water

was not the historic nature of the flood or the destruction it spawned, but the seemingly impossible accomplishment of restoring the crippled line to service in just 21 days.

Even as the flood was peaking, men, materials and equipment were being rushed to the troubled area. Freight and passenger trains were swiftly rerouted to maintain service to our customers. And hundreds of seasoned GN supervisors and maintenance employees, augmented by contractors' crews and equipment, began the formidable, around-the-clock task of repair.

When the first passenger train (above) moved over the restored line on June 29, 1964, it was hailed as a "miracle" by an enthusiastic observer. But no one failed to recognize the human dedication and abilities which made it possible.

This basic fact, however, should not be overlooked: American railways—our most efficient mode of transport—are constantly geared, in war and in peace, to meet such emergencies quickly and effectively without government assistance. Great Northern's "miracle" was in that tradition.



Great Northern Railway Company, Saint Paul, Minnesota