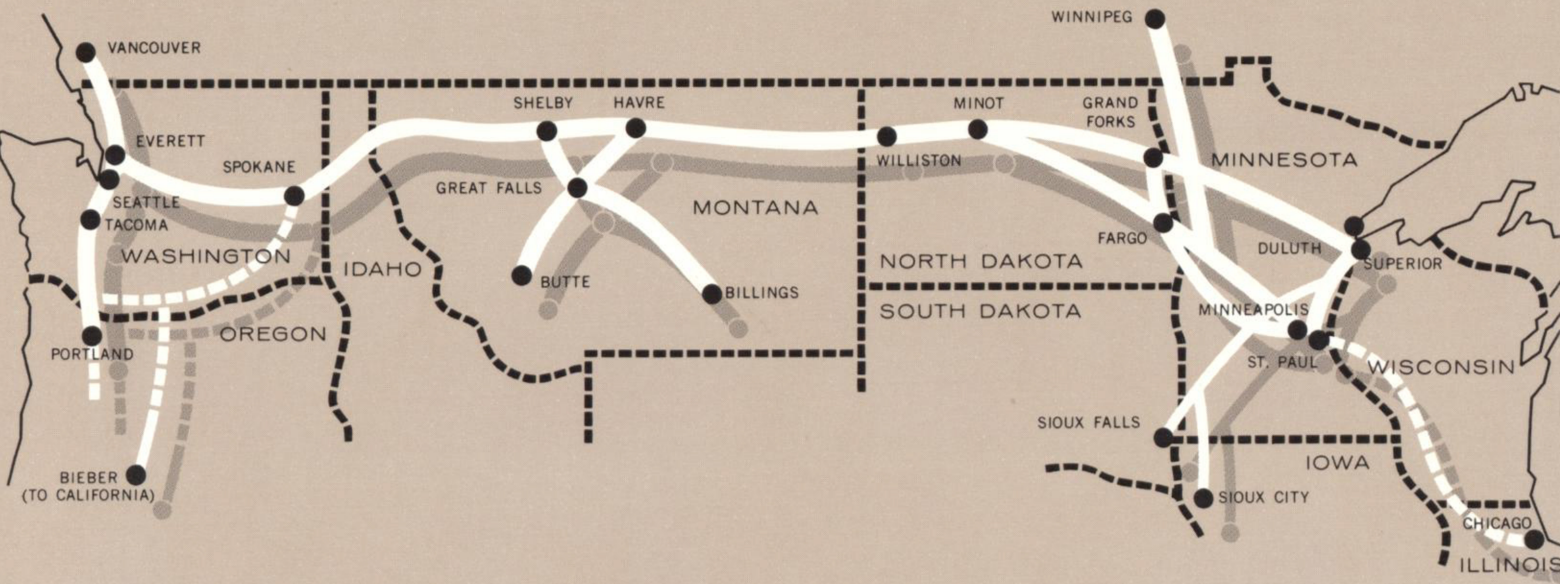
GREAT NORTHERN RAILWAY 1968 ANNUAL REPORT



Our cover photo was made in that breathless moment of sunrise at Wolf Point, Montana, where a 50-car train of export wheat stood loaded and poised for a record run to the ocean terminal at Portland, Oregon. This experimental shipment, made in mid-April of 1968, was a cooperative marketing venture of Great Northern and Montana grain growers.

The annual meeting of Shareholders will be held at St. Paul on May 8, 1969.

Great Northern
Railway Company
Annual Report for
the year ended
December 31, 1968

HIGHLIGHTS

	1968	1967	INCREASE (DECREASE)
Consolidated Operations			
Net Income	$ 22,960,881	$ 19,921,993	$3,038,888
Per Share of Great Northern Stock	$3.73	$3.24	$0.49
Operating Revenues	$274,730,667	$268,362,803	$6,367,864
Operating Expenses	224,515,769	219,895,700	4,620,069
Federal Income Taxes	1,342,886	2,420,672	(1,077,786)
Available for Fixed Charges	34,010,607	30,243,493	3,767,114
Fixed Charges	11,029,849	10,299,738	730,111
Great Northern Railway Company Operations			
FINANCIAL DATA			
Net Income	$ 21,800,053	$ 19,323,461	$2,476,592
Per Share	$3.54	$3.14	$0.40
Dividends Paid	$ 18,471,663	$ 18,463,162	$8,501
Per Share	$3.00	$3.00	—
Shareholders	41,978	42,647	(669)
Operating Revenues	$266,304,851	$260,243,329	$6,061,522
Operating Expenses	217,280,462	212,853,294	4,427,168
Federal Income Taxes	1,200,000	1,885,483	(685,483)
Available for Fixed Charges	31,619,384	28,492,490	3,126,894
Fixed Charges	9,819,331	$ 9,169,029	650,302
Times Fixed Charges Earned	3.22	3.11	0.11
Return on Property Investment	2.71%	2.08%	0.63%
Cash and Temporary Investments December 31	$ 62,426,568	$ 57,770,952	$4,655,616
Working Capital — December 31 (Note 1)	37,112,030	37,676,051	(564,021)
Funded Debt — December 31 (Note 2)	256,522,134	253,732,098	2,790,036
OPERATING AND WAGE STATISTICS			
Miles of road operated	8,277	8,282	(5)
Revenue Net Ton Miles (millions)	18,037	17,948	89
Revenue Passenger Miles (millions)	351	398	(47)
Ratios to Revenues			
Net Income	8.2%	7.4%	0.8%
Transportation Expenses	39.6%	39.6%	—
Maintenance Expenses	32.3%	32.7%	(0.4%)
All Operating Expenses	81.6%	81.8%	(0.2%)
Employees	15,913	16,517	(604)
Wages Paid	$132,401,320	$130,151,559	$2,249,761
Employment Costs:			
(Payroll plus benefits, payroll taxes, etc.)	$154,234,100	$150,530,461	$3,703,639

Note 1 — After deducting long-term debt due within one year.
Note 2 — Excludes long-term debt due within one year.

To Our Shareholders:

This annual account of management stewardship to Great Northern's shareowners brings you the financial results of our 1968 operations. But just as importantly, it chronicles the significant changes in organization and operation which will affect those results in the future.

In the public fancy, the railroad business is too often enmeshed in historic lore which tends to obscure its restless drive and capacity for change. Our own railway has regularly breached new frontiers since pioneer days, and the year 1968 at Great Northern was strongly in this tradition as we saw the science and techniques of railroad operation and management sharply refined by the applications of a sophisticated computer technology.

It requires little insight to realize that even greater change is not only possible but inevitable.

The year's financial results were of course shaped by some rather pronounced external factors, with traffic fluctuating unpredictably and not consistent with the national pattern.

While the first half of 1968 produced a striking image of our 1967 record, with improved earnings reflecting a general high level of economic activity, any optimistic outlook for the year was dashed by a disappointing third quarter showing.

Then a dramatic recovery in the closing quarter pushed our earnings well ahead of those for the preceding year, with the result that we were able to report 12 months' consolidated net income of $3.73 per share, as against $3.24 per share in 1967.

Railway operating revenues increased from 1967 to 1968 by $6.1 million, or 2.3%. Freight revenues were up $8.1 million, or 3.5%, but revenues from operating passenger trains suffered a decline of $2.1 million or, 9.8%. Operating expenses rose $4.4 million, or 2.1%, while net rental payments for equipment and joint facilities were down $2.5 million, or 58%.

Our revenue picture would have been much brighter had our principal commodity, grain, moved in normal volume. Most of the other important commodities in Great Northern's traffic "mix" produced a better movement than in 1967.

For the second consecutive year, however, our grain tonnage was off substantially because of an oversupply of wheat in the world market and resultant depressed prices. Revenues from hauling grain in 1968 were $5.5 million below those for 1967 and $16.4 million under the 1966 figure.

Grain in storage on farms and in country elevators in Great Northern territory again increased, and on January 1, 1969 was estimated at over 320 million bushels — nearly a full year's crop! This compared with 275 million bushels at the beginning of 1968 and 245 million bushels a year earlier.

Passenger train operation presents a growing dilemma, with the dwindling of both rail travel and postal use of these facilities. While we achieved a modest reduction in train mileage during 1968 with a rearrangement of service, the gap between revenues and expenses solely related to passenger service continued to widen. On this basis, Great Northern's loss in operating passenger trains increased from $6.6 million in 1967 to $8.1 million in 1968.

Rapidly rising labor and materials costs lend a special urgency to our program to control expenses and increase efficiency. Those investments with the greatest return are given first consideration in planning capital expenditures.

Improvements also are focused on developing new and significantly higher standards of customer service as an essential to strengthening Great Northern's competitive posture.

Concentrated planning efforts have produced some 200 projects, having as their goal in 1969 additional revenues of $4.5 million and a reduction in expenses of $4.2 million.

Railroad progress and its significance to the national welfare in the past several years have gone generally unheralded. Soaring costs were absorbed by the industry to the remarkable extent that its customers were spared any increase in freight rates from 1960 until 1967.

However, with the continued tightening of the cost-price squeeze, the Interstate Commerce Commission authorized a rate increase of about 3% in August 1967. Additional interim increases of 3% and 2% were granted in June and late November of 1968, and largely confirmed in a final order in January 1969. The improvement in Great Northern revenues in 1968 from the rate increases that year amounted to $11.9 million.

Even with increases in the last two years, Great Northern's average revenue per net ton mile in 1968 was 9% lower than in 1958.

Assuming no major upsetting influences on the economy, we anticipate that our 1969 results will be about on a par with those of 1968.

With storage facilities brimming at the start of the year, we should have an improved grain movement. Fall moisture conditions were excellent, and there has been exceptionally heavy snowfall in our territory this winter.

The demand for lumber and other products of the forest depends to a large extent on housing starts. Forecasts are bullish in this regard despite high interest rates and building costs.

Also, the demand for steel has improved in the past months with the working off of excess stocks built up in anticipation of a strike last August.

On the other side of the ledger, we can expect further increases in costs, which in turn will spur our continuing efforts to find new and better ways of running our business.

Merger certainly offers one of the most attractive avenues of progress, and for more than a decade now we have been endeavoring to achieve unification with the Northern Pacific and our jointly-owned subsidiaries, the Chicago, Burlington & Quincy and the Spokane, Portland and Seattle railways.

The 1968 chapter in that long history is one of alternating elation and disappointment, and is told in detail in the following section of this report. During the year, the Interstate Commerce Commission reaffirmed its earlier approval of the merger, and the decision subsequently was upheld by a three-judge Federal court. However, opponents appealed to the United States Supreme Court, where the case rests at this writing. We are very optimistic about the outcome and expect final action in 1969.

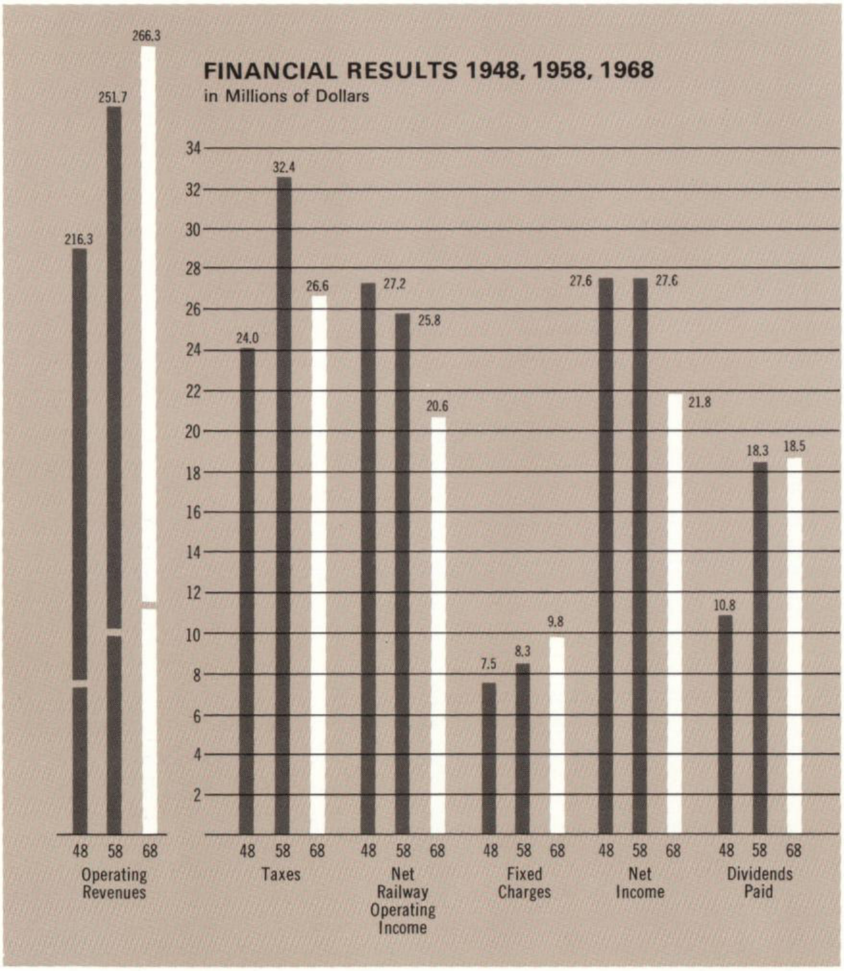
Finally, I wish to commend the officers and employees who have supported this enterprise so outstandingly in a period which has required exceptional energy and dedication.

March 7, 1969

John Budd

PRESIDENT

FINANCIAL: *Strong fourth quarter helped boost 1968 earnings above last year, with GN's consolidated net income climbing to $23 million or $3.73 per share.*



The year began auspiciously, with economic activity of the nation as a whole at a high level. In Great Northern territory, business conditions were favorable, and throughout the first two quarters of 1968 revenues modestly exceeded the corresponding period of 1967. Movements of lumber, iron ore and general commodities were quite good, and only grain was lagging. Net income for the first half bettered that of the previous year.

Then in the third quarter, income turned down sharply — almost entirely because of the low level of grain traffic.

A strong recovery in the final quarter saw an upsurge in all major commodities, including grain. Revenues and net income in the fourth quarter of 1968 exceeded not only the same period in 1967 but also the average of the last five years.

NET INCOME

Consolidated net income of Great Northern and its majority-owned subsidiaries in 1968 was $23 million, or $3.73 per share, up from $19.9 million, or $3.24 per share, in 1967.

Net income of Great Northern Railway alone was $21.8 million, equal to $3.54 per share, an increase from $19.3 million, or $3.14 per share, in 1967.

The annual dividend of $3.00 was continued and paid quarterly at the rate of 75¢ per share.

Consolidated operating revenues of $274.7 million were $6.4 million more than in 1967.

Unfortunately, expenses of the railway, particularly wages, went up faster than productivity could be improved. However, operating costs were held to an increase of 2.1%, while revenues increased a slightly greater 2.3%.

Net income from operating the railway, before allowing for Federal income taxes, was up 8.5% despite sharply higher wage rates and taxes on payroll.

A major factor in this improvement was a reduction in payments for equipment rentals. This reflects the first results of an extensive program to obtain better control over utilization of freight cars. Installation of this computer-oriented system will be completed in 1969, but important results already have been achieved.

Fixed charges were earned 3.34 times before income taxes and 3.22 times after taxes.

Consolidated earnings as reported include Western Fruit Express Company, Glacier Park Company and several other smaller subsidiary companies, but do not include affiliated companies of which less than a majority of the stock is owned by Great Northern. Not included, therefore, is Great Northern's equity in the undistributed earnings of Chicago, Burlington & Quincy Railroad Company (48.6% owned) and Spokane, Portland and Seattle Railway Company (50% owned). However, the net income statement shown on page 22 of this report includes the equity in the Burlington and SP&S. On this basis, consolidated earnings were $4.08 in 1968 and $3.31 in 1967.

In addition, Great Northern owns a 43.75% interest in Portal Pipe Line Company. This company operates a crude oil pipeline in Montana, North Dakota and Minnesota and earned $717,200 in 1968.

FINANCIAL POSITION AT END OF THE YEAR

At the end of 1968, the railway's cash and temporary investments readily convertible into cash amounted to $62.4 million, an increase of $4.7 million during the year.

The level of net working capital, after deducting debt due in 1969, was $37.1 million. This level meets the needs of the company comfortably.

Funded debt, primarily mortgage bonds and equipment trust certificates, held by the public at the end of 1968 was $266.1 million, an increase of $3.5 million during the year.

REPORT ON UNIFICATION

Our prolonged effort to unite the Great Northern, Northern Pacific, Burlington and Spokane, Portland and Seattle railways in a single system, to be known as the Burlington Northern, almost reached its fulfillment in 1968. However, we were to run a gauntlet of frustration before the year was over.

It was reported here a year ago that the Interstate Commerce Commission had approved the merger by a vote of 8 to 2. The order, issued in December 1967, specified January 20, 1968 as the earliest date of consummation. This was delayed by various appeals to the Commission, but the ICC reaffirmed its order on April 11.

Meanwhile, in March, shareholders of the applicant lines again approved the unification of their companies, as conditioned by the ICC. Approval by Great Northern shareholders was by a large majority, with 99.8% of the shares voted being in favor and only .2% opposed.

May 10, 1968 now became the target for "M Day," and the complex final preparation for merger began. May 9 will be remembered as something of a "cliff hanger," with opponents attempting to block the merger in Federal courts in Seattle, New York City and Washington, D.C. All three requests were denied.

The first of the final steps toward merger actually were in progress the morning of May 10, when, at the last possible moment, the Chief Justice of the United States signed a stay order at the request of the Department of Justice.

Subsequently, a three-judge Federal District Court panel thoroughly reviewed the case and, on November 20, dismissed the complaints of the Justice Department and others attacking ICC approval of the merger. The decision was unanimous.

However, there was further delay before the year ended, with the Justice Department appealing the decision to the United States Supreme Court.

Joining them later were four other remaining opponents, and the case is still pending as this is written.

Meanwhile, intensive updating and refining of our merger plans have continued, with the time being used to advantage to develop further the data processing and freight car management systems of the merging lines. This work will be of particular value in establishing control over the new operation and assuring a smooth transition, with quick information to shippers regarding their car movements over the Burlington Northern.

The labor relations departments of the merging companies also have made excellent progress in negotiating implementing agreements with the various labor unions, which will facilitate coordinated operation with minimum adverse effect on employees.

1968 INCOME *in Millions of Dollars*		
Freight Revenue	$241.0	86.2%
Passenger Revenue	$ 8.8	3.2%
Mail Revenue	$ 8.2	2.9%
Express Revenue	$ 1.2	0.4%
Other Revenue	$ 7.1	2.5%
Other Income	$ 13.4	4.8%

1968 OUTGO *in Millions of Dollars*		
Wages chargeable to Operating Expenses	$128.8	46.1%
Other Operating Expenses—Rents, etc.	$ 92.6	33.1%
Taxes	$ 26.6	9.5%
Fixed Charges	$ 9.8	3.5%
Dividends	$ 18.5	6.6%
For Reinvestment, etc.	$ 3.3	1.2%

OPERATIONS: *Operating revenues of $266.3 million in 1968 reflect diversity of GN revenue sources, with most major commodities moving briskly to offset slow grain year.*

West-bound freight train enters Hillyard Yard at Spokane, where GN first installed its highly effective Terminal Performance Control in 1967. Computer-oriented system was extended to 16 other freight terminals in 1968, and has saved GN thousands of car-days.

RAILWAY OPERATING REVENUE

Operating revenues in 1968 made a partial recovery from the disappointing level of 1967, but were far short of our record-breaking 1966. We were fortunate in having a strong assist from freight revenue in the closing quarter of the year. Total operating revenues in 1968 were $266.3 million, compared with $260.2 million the year before and $281.8 million in 1966.

Freight revenues rose to 90.5% of the total operating revenues.

Sources of Operating Revenues were:

OPERATING REVENUES (millions)

	1968	1967	Percent change
Freight	$241.0	$232.9	3.5-I
Passenger	8.8	9.6	7.6-D
Mail	8.2	9.4	13.4-D
Express	1.1	1.3	10.0-D
All other operating revenues	7.1	7.0	1.1-I
Total	$266.3	$260.2	2.3-I

FREIGHT REVENUE

Freight traffic was basically good during the entire year, with the major exception of grain. Fortunately the diversity of Great Northern's revenue sources made possible reasonably good results in spite of the decrease in our single most important commodity.

Grain was moving at relatively low levels as the year began. Export shipments were down from the peak of 1966 and early 1967. Crops on a worldwide basis were better than for several years. Grain in storage in Great Northern territory stood at a near record 275 million bushels.

Moisture reserves in the soil were fair to good in the spring. As the season progressed growing conditions were excellent for wheat and barley, with abundant rainfall and cool weather when needed. A bountiful crop resulted, although continuing rain seriously delayed harvesting in the heavy producing areas of North Dakota and northwestern Minnesota.

Even with prospects of a good crop, shipments of grain declined sharply in April and were particularly light from July through September. Low market prices encouraged holding of grain on farms, and extensive construction of storage bins was undertaken by many farmers. Finally, in October, with the harvest completed, prices improved somewhat and a heavy movement of grain began, continuing through the end of the year.

Grain in storage at the beginning of 1969 was 320 million bushels, up 16% from the beginning of 1968. Moisture reserves are good and the exceptionally heavy snowfall early in 1969 will provide ample moisture at the beginning of the growing season.

Lumber shipments in 1968 were excellent, exceeding expectations. Revenues were up nearly $5 million, a gain of 13%. Housing starts, which were strong in 1968, are expected to continue at a relatively high level, bringing a good movement of lumber in 1969.

The use of natural iron ore continued its downward trend, but the decrease in shipments was small. With production of taconite pellets rising, we enjoyed an overall increase in iron ore revenue of 9%. Taconite plants served by Great Northern increased their production over a million tons above the 1967 level, with further gains expected in 1969.

Another area of major improvement was in smelter products. Settlement of the strike in the copper industry, which began in mid-1967, was reached in early spring of 1968 and production resumed. Also during the year, additional facilities at several aluminum plants in our territory were completed, contributing to substantially higher shipments of this metal.

Piggyback traffic had an outstanding year, with a 37% growth from 1967.

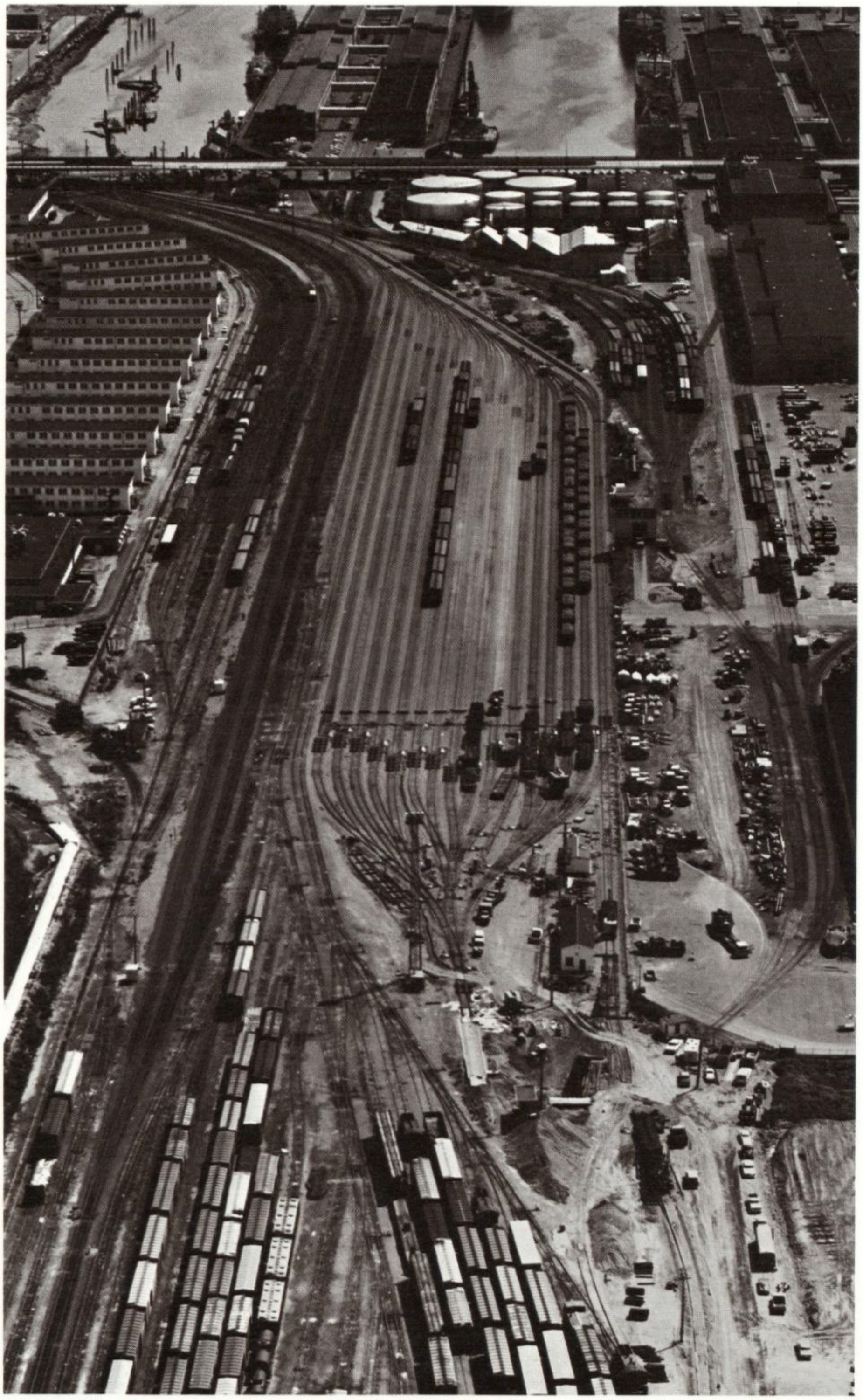
A general increase in freight rates was requested by the nation's railroads early in 1968. The application to the Interstate Commerce Commission asked for selective increases in various commodities averaging 5%, to help counter rising wage costs in the industry.

The Commission authorized an interim increase of 3% in June, and in late November approved a further increase of 2%. A final order in January 1969 largely confirmed the two interim increases. It is expected that the higher rates will produce a net increase in revenue of about $12 million annually. Although some shippers objected strongly to certain of the increases, railway freight charges remain a real bargain. In the ten-year period from 1959 to 1968, Great Northern's average charges to shippers decreased 8% in spite of an increase in hourly wage costs of 37%.

PASSENGER TRAIN REVENUE

The passenger train situation in 1968 was in sharp contrast to the improvement in freight. Revenues continued to deteriorate with the diversion of considerable mail traffic and declining patronage, with the

Commodity	1968 Revenues (Millions)	1967 Revenues (Millions)	Percent Change
Grain and grain products	$52.5	$57.8	9.2-D
Lumber and products	42.4	37.6	12.8-I
Iron ore including dock charges	16.3	15.0	8.7-I
Smelter products (copper, aluminum, lead and zinc)	12.3	10.5	17.1-I
Wood pulp, paper and products	12.2	11.7	4.3-I
Motor vehicles	8.6	7.2	19.4-I
Crude petroleum and products	6.3	5.8	8.6-I
Coal and coke	5.5	5.6	2.0-D
Iron and steel manufactured articles	5.5	5.3	3.8-I
Alumina	5.0	5.7	12.3-D
Apples	3.3	4.4	25.0-D



Seattle's historic Interbay Yard became a modern, electronically-controlled hump yard in 1968 with partial completion of a $2.5 million enlargement and modernization program at this busy terminal. The facility has been renamed Balmer Yard, honoring Thomas Balmer, for many years Great Northern vice president and a prominent civic leader in Seattle.

result that higher wage costs had a particular impact on passenger operations.

The downward trend in use of passenger trains did not affect Great Northern as early as it did some other railroads. While travel in sleeping cars steadily declined from the late 1950s, the number of passengers handled and the revenue derived from coach service remained stable. In part, this was due to maintenance of high quality service, consistent promotional activity and a sincere desire to attract passengers.

The trend in patronage was modestly upward and the deficit remained about the same from year to year as rising costs were offset in large part by elimination of the most unprofitable and least used services.

However, beginning in 1967, the total number of passengers and revenue derived from passenger service turned downward. This was accentuated by the diversion of mail from passenger to freight trains, the Post Office Department's sharply reduced use of railway post office cars for sorting of mail enroute, and the diversion of some mail to highway transport.

This discouraging situation has led to further studies looking toward reduction of the deficit. During 1968 one pair of trains was discontinued between St. Paul and Fargo, North Dakota, and the Western Star was rerouted to run via Grand Forks, permitting withdrawal of a pair of local trains between Fargo and Minot. In spite of this saving the deficit from passenger operations increased from $6.6 million in 1967 to $8.1 million in 1968. These figures are based on costs solely related to passenger service.

The Interstate Commerce Commission has launched a full-scale study of passenger operations, with a number of railroads, including Great Northern, participating actively in a detailed investigation of costs. Hopefully, out of this will come some solutions to the vexing problem of the long distance passenger train which is still used by substantial numbers of people but is incapable of paying its own way. The study should at least lay to rest the myth that all passenger trains would be profitable if only the bookkeeping were changed.

OPERATING EXPENSE

Railway operating expenses in 1968 were $217.3 million, up 2.1% from the level of 1967. By careful control of expenses, the increase from 1967 was held equal to the increase in physical volume of traffic measured in revenue ton miles. Wage costs remained stable at 49.7% of revenues, although rates of pay were nearly 5% higher than in 1967.

Maintenance expenses on roadway in 1968 were $39.7 million, almost the same as in 1967. Some of the program of relaying with new rail was deferred when revenues fell in mid-summer. This rail is on hand and the work will be carried out as a part of the 1969 program.

Maintenance of equipment expenses were $46.3 million, up $1.0 million from 1967. The increase was entirely in higher depreciation and retirement charges which do not involve a cash outlay.

The cost of maintenance work performed was almost exactly the same as in the previous year. The benefits of several major cost reduction programs made this possible.

While transportation expenses rose modestly, the ratio of such expenses to revenue remained the same at 39.6% in both 1968 and 1967. The overall operating ratio was slightly improved, declining to 81.6% in 1968 from 81.8% in the previous year.

A number of measures of operating efficiency improved during the year. Gross ton miles per freight train hour, the measure of train loading and speed, were at a record high of 82,676 — up 4% from 1967. Better utilization of freight cars is indicated by the number of net ton miles produced each day by each car on line. In 1968 this amounted to 1,221 compared to 1,203 in 1967. In the past ten years this index has improved 21%.

These improvements in efficiency result from the investment of a great deal of capital in improved facilities and equipment, the continuing search for better ways to manage the railroad and the efforts of the thousands of loyal and trained employees.

A reorganization of claim prevention responsibility has given the railway's police department a more active role as the Security-Freight Claim Prevention Department. This, together with an education program for employees and new procedures in the Freight Claim Department helped us achieve the first reduction in charges for loss and damage to freight in a number of years. For 1968, payments were approximately $550,000 less than in 1967. Claim payments are expensive both in money and in customer goodwill. The saving is most welcome.

Grain train pictured on cover is shown here on its arrival at the Peavey Company's West Coast Terminal in Portland, where the 175,000 bushel shipment of wheat was loaded into ships for the Philippines and Japan. Test movement produced valuable information on quick gathering of a large quantity of grain for export shipment.

The powerful "Piggy-Packer" gently places a loaded marine container on a Great Northern flat car at Seattle. For rail and other "shore duty" this container is mounted on a chassis, which detaches when the container goes to sea.

Probably no single development in Great Northern's history has the potential to so profoundly affect the way we plan and run our business as the new computer-based information system which became operational in 1968.

Management decision making and the quality control of service by the railway already are being exercised with a new degree of sophistication. Car movement information vital to our sales offices and customers is being provided on a significantly improved basis.

Great Northern was an industry pioneer in electronic data processing, and has built its management information and control system on a solid foundation of computer experience. Its ultimate goal is to provide our customers with a superior physical distribution service with a greater profitability for the railway.

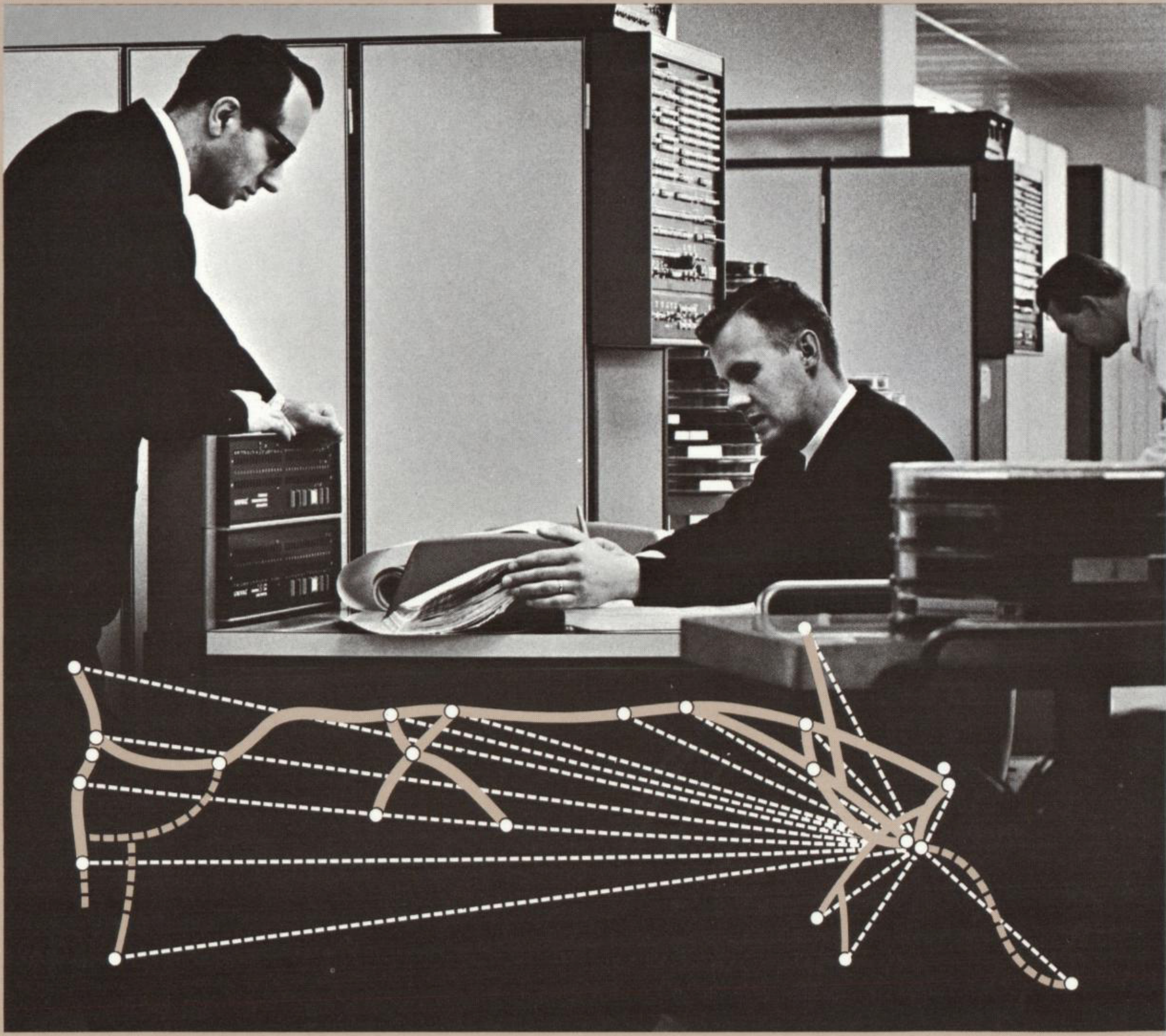
Called Transportation Service Control by GN, the new information system deals essentially with the movement of cars, both loaded and empty, on the railway. Comprehensive data on car status is gathered through a vast communications network and subsequently computer-processed in our St. Paul headquarters for use by the Transportation Department in directing the movement and distribution of rail traffic.

The duplicate computers assigned to this operation also are used as reservoirs or "banks" of instantly-accessible information on the status of the 40,000-average cars on line. This data is conveniently tapped for accounting purposes and production of historical reports for management review.

As an adjunct to the data gathering system, train consists are automatically transmitted from one terminal to the next for the advanced planning of switching moves and delivery of cars to customers' sidings.

The hardware for Transportation Service Control (TSC) includes two UNIVAC 418 computers, data terminals located at nearly 100 points on and off the railway, and the associated company-owned and leased com-

TRANSPORTATION SERVICE CONTROL



Two UNIVAC 418 computers are the electronic "nerve center" of the fantastic information system which Great Northern's skilled managers harnessed to create Transportation Service Control. The two computers are interchangeable. Should one fail, the other can go "on-line" immediately and continue to amass car movement data without interruption.

Among the array of equipment which feeds car movement information into the 418 computers are six of these high-speed UNIVAC data communications Model 2000 machines. Each Model 2000 is able to transmit the entire consist of a 180-car freight train in under a minute.

Inquiries about a car's most recent move, as well as first and intermediate reportings, are answered by Transportation Department's Information Service personnel. Marketing offices equipped with leased communication facilities and customers with Telex installations can by-pass Information Service by making direct inquiry of the 418 computer.

munications facilities to connect the data terminals to the computers in St. Paul.

Transportation Service Control embraces four sub-systems, each having its own particular function.

Terminal Performance Control was installed on a pilot basis at Spokane in 1967, and was described in last year's Annual Report. Since then, TPC has been extended to 16 other freight terminals, with five additional points slated for similar installations in 1969.

Very simply, TPC has become an effective tool of terminal management by pinpointing trouble spots before they become serious. The computer-oriented system does this by measuring actual timed movement of a car within a terminal against predetermined standards. The program already has resulted in literally thousands of car-day savings, benefitting both the railway and its customers.

The Freight Service Measurement System, which assesses actual performance against predetermined standards, is, like TPC, a form of quality control which pinpoints locations where performance is sub-standard. It is concerned with the total movement of the car on the railroad. Armed with this computer-generated intelligence, division officers can apply effective measures to upgrade their operation.

The Car Management System, drawing on the computer data banks, provides car information in a form which enables our Transportation Department and car distributors to more efficiently allocate and distribute cars for loading. Weekly forecasts of car demand also are developed for use in dispatching empty cars. The goal of this system, which is still under development, is to reduce car shortages, gain greater utilization of our freight car fleet and improve the timeliness with which car orders are filled.

The Transportation Information System is designed to provide essential car movement information to our customers on a timely basis. As quickly as a car is loaded on our system or arrives loaded from a connection and is reported to the computer, the information is transmitted through our communications network to the interested sales offices. For over 100 customers, data on the movement of their cars is sent directly to their offices via teletype. Any GN data terminal, or any customer equipped with appropriate teletype facilities, can make direct inquiry into the computer's "memory" for information about cars in which they have a rightful interest.

While Transportation Service Control has been operational only since the middle of 1968, it already can be credited with significant improvements. The thousands of car days saved by moving cars more quickly through terminals helped reduce our car rental expense by about $2 million in 1968. Orders for empty cars are being filled more promptly, and there has been a noticeable decrease in shipper complaints. Our ultimate objective is to reduce these complaints to zero.

The implementation of Transportation Service Control and its related systems will continue in 1969, and we expect that this new "science" of railroading will contribute substantially to Great Northern's future role as a transportation company.

IMPROVEMENTS: *Fixed property improvements and new equipment cost Great Northern $27 million in 1968, with $30.1 million in capital expenditures planned for 1969.*

Great Northern spent $27 million for new equipment and fixed property improvements in 1968. While somewhat lower than the preceding year, it is close to the average of the last five years. The amount spent for equipment was $16.9 million and for roadway improvements $10.1 million.

EQUIPMENT

Eighteen new diesel-electric locomotives were added to Great Northern's fleet in 1968. These were 3300 and 3600 HP units especially suited to the long distance, high speed runs of present day railroading. They are cheaper to maintain, more dependable and of far greater capacity than their predecessors which introduced dieselization to Great Northern in the late 1940s.

The freight car fleet was improved

A community "open house" in mid-December marked the opening of GN's new diesel service facility at Havre, Montana, where the railway has maintained diesel repair shops for many years. The "one stop service station" is designed to improve engine availability.

by addition of 1,016 units. Included were 300 jumbo covered hoppers of 100-ton capacity, primarily for grain loading. These efficient cars, of which Great Northern has 2,180, are now carrying nearly 30% of all grain shipments. Shippers are enjoying reduced costs of loading and unloading, with little chance of loss in transit.

Also acquired were 150 flat cars with bulkheads for packaged lumber loading, 100 woodchip cars used to handle wood chips to pulp mills for paper making and 150 box cars with load-restraining devices.

Some specialized cars added to the fleet: 15 flat cars for movement of various sub-assemblies to the Boeing 747 plant near Everett, Washington; 11 flat cars designed to handle both piggyback trailers and containers; and 21 jumbo air-slide covered hoppers for bulk sugar and flour.

FIXED PROPERTY IMPROVEMENTS

The expenditure of $10.1 million for roadway improvements in 1968 was $0.5 million less than the amount spent in 1967.

On the regular track programs, new rail was laid in replacement on 29.5 miles of main line. In addition, 359,900 cubic yards of ballast and 303,400 cross ties were renewed. The amount of ballast was about normal but rail and tie renewals were somewhat below the average of the last five years. On the lighter traffic secondary lines 37 miles of track were relaid with heavier secondhand rail.

A major improvement project partly completed during the year was expansion and modernization of the freight terminal at Interbay in Seattle. This facility, renamed Balmer Yard in honor of the late Thomas Balmer, Great Northern vice president and a Seattle civic leader for many years, expedites the handling of freight cars in a busy area which has been growing rapidly.

At Minneapolis a new shop for light repair of freight cars was built in a new and convenient location adjacent to the principal yard. This improved facility replaces older facilities at several locations. The new repair shop is not only more efficient, but is helping reduce delays to shipments.

At Havre, Montana, new facilities for quickly servicing diesel locomotives were completed late in the year, making possible more efficient use of the existing diesel shop for repair work.

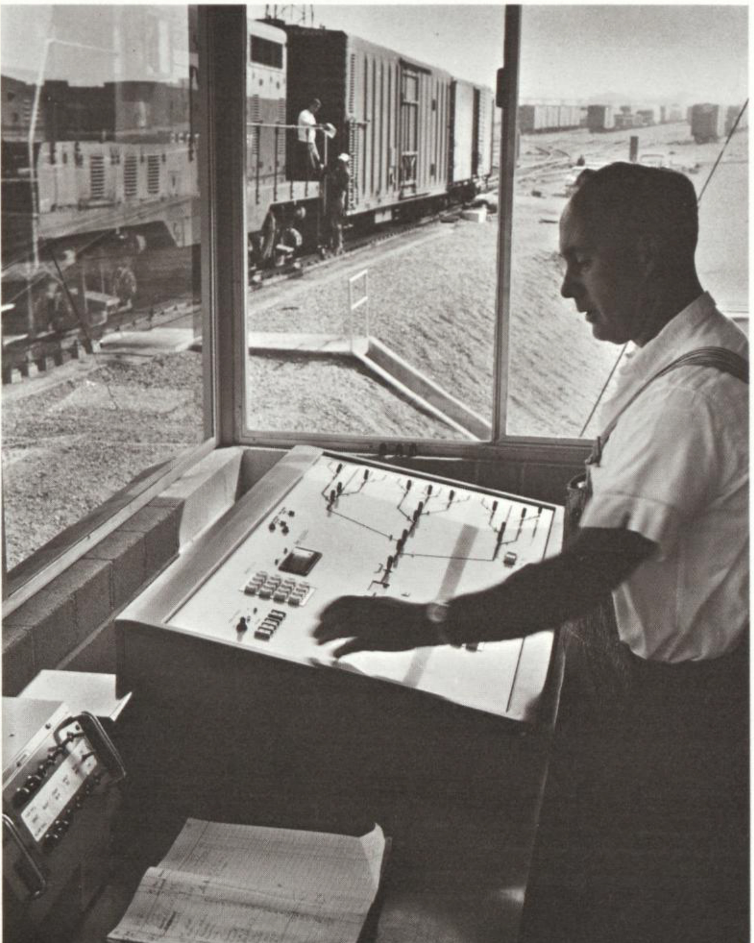
Centralized traffic control was installed on the main line between Troy, Montana and Sandpoint, Idaho, a distance of 65 miles. Another 24 miles of CTC were installed on the secondary line between Casselton and Nolan, North Dakota. This will be part of the main transcontinental freight route of the merged Burlington Northern.

PROGRAM FOR 1969

As in most recent years, a major portion of the anticipated expenditure of $30.1 million in 1969 will be for rolling stock. It is proposed to spend $18.2 million for equipment and $11.9 million for roadway improvements.

Included in the equipment will be 12 new high-horsepower locomotives to further replace the first generation of diesel units which were acquired about twenty years ago. New freight cars will include 250 box cars, 125

Construction in 1968 of the new Bridal Veil Creek car repair shop in Minneapolis was part of GN's continuing program of upgrading terminal operations and improving car availability. The modern facility is in effect adding cars to the fleet by reducing out-of-service time.



Freight cars being switched at GN's new Balmer Yard in Seattle pass over a hump and roll by gravity into one of 16 classification tracks. Speed and direction of movement are controlled electronically by a switch foreman, who can handle cars at the rate of three per minute.

wood chip cars and 25 flat cars for Boeing service.

Western Fruit Express Company plans to acquire 200 mechanically-cooled and heated refrigerator cars as part of its continuing program of replacing obsolete ice-cooled refrigerator cars with modern temperature-controlled equipment.

The regular track program includes some increases over 1968, with a projected 50.75 miles of new rail, 39 miles of secondhand rail, 400,000 cubic yards of ballast and about 300,000 cross ties.

In preparation for later installation of centralized traffic control, passing sidings will be extended in two areas in Washington. At Minneapolis, work on diesel locomotive servicing facilities which was started in 1968 will be completed. Likewise, at Balmer Yard in Seattle, the modernization of this terminal will be completed when new freight equipment repair facilities are put in service.

Centralized traffic control will be installed on 48 miles of line between Whitefish and Radnor, and Ripley and Troy, Montana. These two segments are a part of the CTC installation between Whitefish and Sandpoint, Idaho which will be completed in 1970 when the Libby Dam line change is completed.

Work on the line change is proceeding on schedule under the direction of the U.S. Corps of Engineers. The 7-mile Flathead Tunnel was holed through on June 21, 1968 when President Johnson fired the final blast by pressing a key in Washington, D.C. Construction crews are now engaged in placing concrete lining in the tunnel, and in grading on other parts of the 59 miles of new line which is to be finished by November 1970.

A 40-acre land-fill adjacent to GN's main line skirting Elliott Bay is the site of a $13 million ocean grain terminal to be completed by the Port of Seattle in 1971. Leased to Cargill, Inc., it will attract some of the largest ships in the world.

Specialized freight equipment acquired by Great Northern in 1968 included 11 dual-purpose flat cars like the one pictured. Designed to handle either trailers or marine containers, the big 70-ton capacity cars carry a pricetag of $21,200.

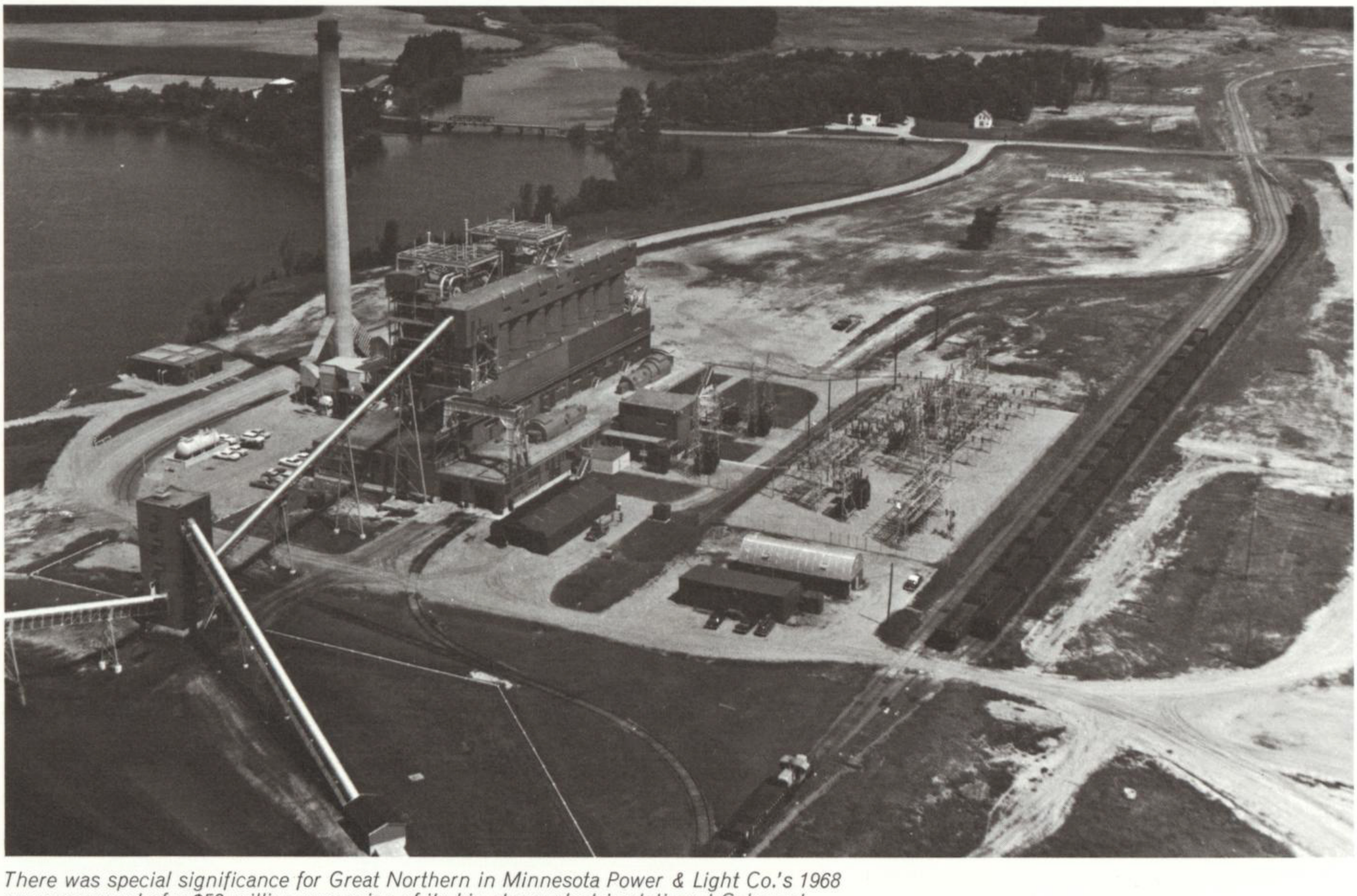
MARKETING: *GN's new marketing emphasis creates action programs aimed at solving customers' distribution needs and improving railroad profitability.*

Marketing at Great Northern hit a confident stride in 1968, as we moved from adoption of the marketing concept to action programs.

Organizational changes necessary to carry out our mid-1967 commitment to a strong, customer-oriented approach to our business were consolidated, and we witnessed the development of a highly competent marketing team.

New skills and capabilities in market and industrial research were brought to bear on identifying and evaluating opportunities. Criteria for these opportunities were that they be responsive to our customers' distribution needs and profitable to Great Northern.

This concentration on specific targets generated increased



There was special significance for Great Northern in Minnesota Power & Light Co.'s 1968 announcement of a $52 million expansion of its big steam electric station at Cohasset, Minnesota. By 1973, unit trains operated jointly by GN and Northern Pacific will serve the plant in a 1,700-mile round-trip from Colstrip, Montana—longest haul of its kind in the U.S. It's a major breakthrough for utilization of fossil fuels from this area.

momentum as the year progressed, culminating in a 1969 Marketing Plan which embraces 153 separate action programs to increase revenue.

The total resources of all departments of the railway have been coordinated to bring maximum effectiveness to the efforts of our new Marketing Department.

Marketing at Great Northern has taken several directions:

• **Solving a customer's distribution needs.** Providing the most economical transportation package for the movement of Saskatchewan potash to Midwest distribution points scored as one of our outstanding marketing accomplishments in 1968. It was determined that a unit train would best serve the requirements of our customer, International Minerals & Chemical Corporation, affording them a substantial reduction in distribution costs. Land and trackage for the train loading facility were readily available at Northgate, North Dakota, terminus of a GN branch line near the Canadian border.

The first unit train, carrying more than 10,000 tons of potash in 118 covered hopper cars, left Northgate on November 15 and was delivered by the Burlington at Mendota, Illinois two days later. The yearly movement of this important fertilizer product is expected to reach 700,000 tons, or approximately 7,000 carloads.

• **Capitalizing on new markets for transportation service.** A prime example in this category is a substantial bentonite deposit southwest of Glasgow, Montana. While mentioned in last year's Annual Report, it was not until 1968 that the Ashland Chemical Company announced its final plans to proceed with development of a mine and beneficiation plant at the site. GN geologists made an important contribution, and the railway is building trackage to serve the facility.

Production of bentonite, a clay widely used as a binder in making taconite pellets, is expected to begin by late 1970.

A second major new market is developing as the result of vast crude oil finds in Alaska. In October, Atlantic-Richfield announced that it would construct a 100,000-barrel-per-day oil refinery near Ferndale, Washington. The site selected included land owned or optioned by Great Northern. It is anticipated that we will handle 1,200 cars of construction materials and, after completion of the plant in 1971, approximately 1,100 cars per year.

A third exciting new market involves containerization, particularly of import cargoes moving from the Far East to the large domestic markets of the midwestern and eastern states. During 1968 Great Northern carried out extensive research into the potential markets for such shipments, and has prepared programs to facilitate a growing flow of container movements. With new containership operations to Pacific Northwest ports served by Great Northern, we are favorably situated to participate extensively in containerization.

• **Improving Great Northern's share of existing markets.** Intensive research and analysis in late 1968 developed an opportunity to greatly increase our share of the wheat market moving from northeast Montana and North Dakota to the Twin Cities and Head of the Lakes. A so-called "no frills" rate proposal will benefit the producer in lower transportation costs. For the railroad, costs of producing the service will be trimmed and equipment utilization improved by reducing transit delays which result from privileges allowed under existing rates. These rates will be continued as an alternative for those shippers who desire the more extensive services.

• **Improving profitability within existing markets.** Great Northern handles a large volume of food products requiring temperature control, including potatoes, apples and frozen fruits and vegetables. For the past several months, a research project has been underway to identify more profitable methods of handling these commodities. It has led to an intensive look at what types of new equipment should be designed to reduce transportation costs and damage claims to increase customer satisfaction. The study, to be concluded in 1969, will identify

Potash to enrich the farmlands of the Midwest is loaded in big covered hopper cars and moved by the solid trainload from Northgate, North Dakota, on the Saskatchewan border northwest of Minot. First 118-car train ran in late 1968.

new equipment which should be purchased over the next several years to handle these important commodities.

Vigorous industrial development activity by the Marketing Department helped bring 146 new industries to Great Northern trackage in 1968, an increase of 37 over the previous year. We also shared in bringing 13 new industries to trackage served by Great Northern and other rail lines. Our subsidiary Pacific Coast R.R. Co., meanwhile, welcomed nine new warehousing operations at Renton, Washington.

PASSENGER SERVICE

While there has been understandable emphasis on reducing passenger train expenses, Great Northern continues to promote those services required by the public and to make them as attractive as possible. Our aim is to retain and improve revenues which will help minimize the deficit from this operation.

Western vacation travel continues to be the principal stimulus to our passenger business. In the summer of 1968, the Empire Builder began serving Glacier National Park for the first time, carrying most of the large tour parties. Previously, only the Western Star stopped at this summer playground in the Montana Rockies. The added service produced an increase of 12% in train arrivals there.

The Big Mountain Ski Resort at Whitefish, just west of Glacier, has had a substantial effect on our winter business, drawing skiers from both ends of our transcontinental line. The Big Mountain is continuing its expansion program to provide larger and more attractive facilities, including additional chair lifts. A 54-unit condominium apartment building scheduled for completion early in 1969 will greatly increase housing accommodations at the resort.

Effective January 1, 1969 the Great Northern and other rail carriers partially withdrew from the Pullman pool operation, and are now staffing sleeping cars with their own employees. We will completely withdraw from the Pullman Company on August 1, 1969, taking over the responsibility for all staffing and maintenance of sleeping cars on our line at that time.

Great Northern advertising in 1968 gave effective support to the railway's marketing program. Major emphasis was on introducing new market managers, and to accomplish this we "rifled" full-page color ads at specialized audiences through more than 40 trade journals read by potential customers.

PERSONNEL: *Varied program of personnel activity in 1968 centered on training, safety and recruitment, with particular emphasis on job opportunities for disadvantaged.*

Recruitment and manpower resources development continued to receive strong emphasis in the 1968 program of Great Northern's Personnel Department.

In cooperation with the National Alliance of Businessmen and other organizations concerned with employing disadvantaged minorities, the railway last year embarked on a dedicated program to hire the hard core unemployed in St. Paul, Minneapolis and Seattle. This essential effort has not only been worthwhile, but the majority of those hired, both permanent and temporary, have proved to be able, dependable and conscientious employees. GN has made a valuable industry contribution by establishing an effective communications link with minority groups. This relationship is responsible for the high retention of hard core employees.

The department's Corporate Management Training Program, initiated in 1967 for development of college graduates and qualified employees for supervisory and managerial positions, met with continued success. As an adjunct to this program, 363 first line supervisors throughout the GN system attended a personnel development course in basic principles of supervisory management. A continuation of this program is scheduled for 1969.

In the Fall, the company premiered and released its new public service film, "Paced to Live." Directed primarily at young motorists, this dramatically different film exposes the hazards of ignoring the signals which control and guide our lives, especially those at rail-highway grade crossings. "Paced to Live" already has achieved nationwide acclaim and demand for prints, both for bookings and purchase, has exceeded expectations. Aiming at further reducing crossing accidents, GN hopes to show the movie in all high schools along the company's lines by summer 1969.

The year brought a reduction in the rate of on-the-job injuries to employees and a 20% reduction in the number of grade crossing accidents involving the public.

For the thirteenth consecutive year, GN awarded 4-year scholarship grants. Five sons and two daughters of employees received grants each in the amount of $800 per academic year.

The number of employees at the close of 1968 was 15,452, compared with 16,179 at the end of the previous year. Average employment last year on GN was 15,913.

LABOR RELATIONS

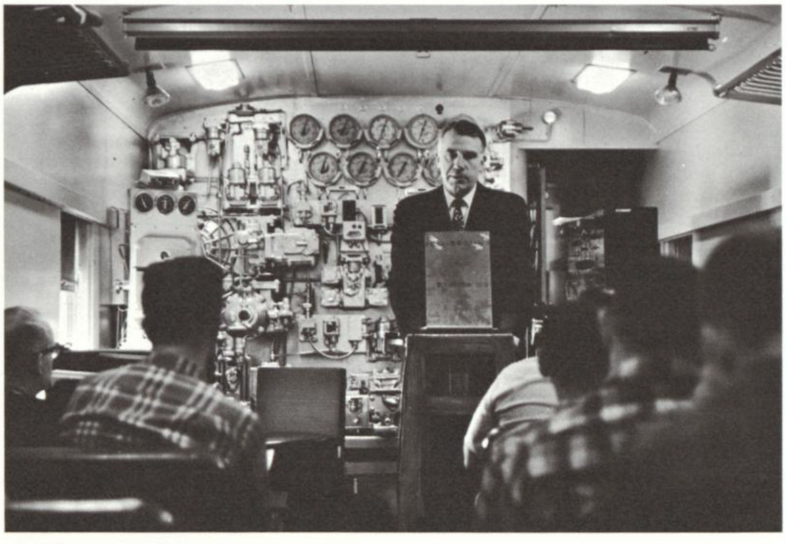
The national railway labor relations scene was relatively tranquil during the past year as compared with the crises that arose in 1967.

Because the moratoria of previous wage settlements expired at different times, collective bargaining over money issues was staggered during 1968.

The unions representing trainmen, switchmen, firemen and clerks entered into wage agreements effective January 1, 1968 which provide for wage increases at six-month intervals through 1969.

Effective July 1, 1968, a comparable settlement was reached with representatives of the telegraphers, maintenance of way and dining car employees. No settlements were concluded with the remainder of the unions during the year. All union agreements, both proposed or concluded, provide wage increases totaling 16% over the years 1967-69.

Undoubtedly, the most significant railway labor development of 1968 was the realignment of a number of the craft organizations. The Transportation Communication Employees' Union (telegraphers) and the Railway Policemen's Union are now divisions of the Brotherhood of Railway Clerks. Also, the United Transportation Union was formed through merger of the Switchmen's Union, the Brotherhood of Locomotive Firemen and Enginemen, the Order of Railway Conductors and Brakemen and the Brotherhood of Railroad Trainmen. The employee vote favoring unification was overwhelming.



(Top left) Productive ideas submitted in GN employee suggestion program are evaluated for cash awards by general committee. (Top right) Newly-hired clerical personnel in Seattle area receive special night school orientation and training. (Lower left) First-line supervisors in Twin Cities area discuss reasons for prejudice at racial sensitivity training session. (Lower right) Apprentice locomotive engineers begin training program.

CORPORATE: *Funded debt reached $266.1 million, depreciation $18.8 million at end of 1968; annual payments on equipment debt and cash down payments $9.6 million.*

The ownership of Great Northern continues to be widely spread, with its 41,978 shareholders located in every state, most of the Canadian provinces and 10 foreign countries. Through insurance companies, mutual funds and other financial institutions, many more participate indirectly in ownership of the company.

FUNDED DEBT

Funded debt outstanding at the end of 1968 was $266,114,848. Mortgage bonds outstanding did not change but there was a small increase in equipment obligations as new issues exceeded payments on debt which was already outstanding.

As of Dec. 31	General Mortgage Bonds	Equipment Obligations	Miscel-laneous Obligations	Total Funded Debt
	(Millions)			
1962	$178.7	$56.2	$—	$234.9
1963	178.7	59.1	—	237.8
1964	178.7	58.9	—	237.6
1965	178.7	69.5	—	248.2
1966	178.7	71.6	—	250.3
1967	178.7	82.3	1.6	262.6
1968	178.7	86.0	1.4	266.1

Most of the new rolling stock acquired during 1968 was financed through equipment trusts, but an exception was a 15-year lease for the 18 freight locomotives which were added to the fleet. Excluding payments to a wholly-owned subsidiary, the total of lease payments in 1968 for locomotives and freight equipment amounted to $1.9 million.

Leasing continues to be favored for data processing equipment, since frequent changes in the railroad's requirements and frequent introduction of improved models makes renting or leasing of computers and associated equipment more attractive.

Depreciation charges which are included in maintenance accounts as an expense, but do not require payment of actual cash, are rising each year as new, higher cost equipment replaces older cars and locomotives acquired when prices were lower. Depreciation in 1968 amounted to $18.8 million. This major source of cash flow is substantially more than the $9.6 million required for the annual principal payments on existing equipment debt and the 20% cash down payment required for new equipment trusts in 1969.

For many years the Interstate Commerce Commission has consistently ruled that depreciation be on a straight line basis, but for Federal income tax purposes Great Northern varies from this method in the following ways:

1. To encourage investment in facilities essential to the war effort, Federal tax laws for a number of years during and shortly after the Korean War permitted amortization of investments over a five-year period. The tax benefits of this law expired in 1962, and net income currently is reduced as depreciation is still charged on the company's books with no offsetting income tax benefits.

2. Federal tax laws permit property acquired after January 1, 1954 to be depreciated on an accelerated basis for tax purposes.

3. In addition, the Treasury in 1962 published new guidelines which permit use of shorter lives in calculating depreciation for tax purposes than those authorized by the Commission.

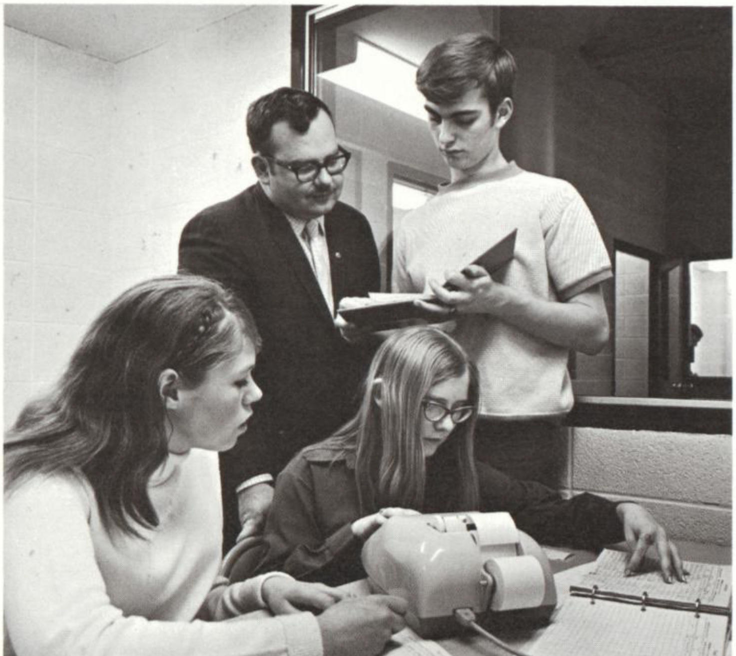
The net effect in 1968 of these

Year	Change in Net Income Due to Amortization of Defense Facilities (Millions)	Per Share	Increase in Net Income Due to Accelerated Depreciation and Guideline Lives (Millions)	Per Share	Total Increase in Net Income (Millions)	Per Share
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	1.3-D	0.21-D	6.9-I	1.12-I	5.6-I	0.91-I
1965	1.2-D	0.20-D	6.8-I	1.11-I	5.6-I	0.91-I
1966	1.2-D	0.20-D	3.6-I	0.59-I	2.4-I	0.39-I
1967	1.1-D	0.18-D	4.3-I	0.70-I	3.2-I	0.52-I
1968	0.6-D	0.10-D	2.6-I	0.42-I	2.0-I	0.32-I

adjustments, with consequent reduction in income taxes, is a net income of $2.0 million, or 32¢ per share greater than would have been reported had the tax benefits not been taken.

These tax benefits may result in payment of higher taxes in the future, the timing and extent of which cannot be determined. There has been some difference of opinion as to the appropriate accounting. The Interstate Commerce Commission has ruled that net income should be determined on the basis of tax expense actually incurred in the current year, regardless of the fact that a benefit from depreciation for tax purposes greater than book depreciation may be temporary.

We continue to use the accelerated depreciation methods when beneficial, and the shorter guideline lives for tax purposes. The effect of this tax accounting is to reduce current income taxes and to increase net income as shown, for Great Northern Railway Company only, in the table on the preceding page.



High school students active in the Junior Achievement program learn the facts of free enterprise by organizing and operating their own "mini" companies. Great Northern sponsors JA companies in St. Paul, Seattle and Spokane, and aids the program in other communities. The group shown here with their GN advisor is at the St. Paul JA Center.

GREAT NORTHERN
RAILWAY COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated statements on the following pages indicate the balance sheet accounts as of December 31, 1968, and results of operations for the year then ended (with comparative figures for 1967) of the Great Northern Railway Company and its majority-owned subsidiary companies.

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
AND MAJORITY-OWNED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

	For the years ended December 31, 1968 and 1967 1968	1967
OPERATING REVENUES:		
Freight	$247,065,791	$239,284,630
Passenger, mail and express	18,155,332	20,272,675
Other	9,509,544	8,805,498
Total	274,730,667	268,362,803
OPERATING EXPENSES:		
Transportation	107,111,697	104,744,577
Maintenance of way and structures	38,789,021	38,050,603
Maintenance of equipment	51,175,935	50,393,400
Traffic, general and other	27,439,116	26,707,120
Total	224,515,769	219,895,700
NET REVENUE FROM RAILWAY OPERATIONS	50,214,898	48,467,103
TAXES (Other than Federal Income Taxes) AND RENTS:		
Payroll taxes	14,544,686	13,676,444
Property and other taxes	11,769,107	12,822,960
Equipment and joint facility rents — net	(525,574)	1,961,900
Total	25,788,219	28,461,304
NET RAILWAY OPERATING INCOME — Before Federal Income Taxes	24,426,679	20,005,799
OTHER INCOME (DEDUCTIONS):		
Dividends	6,774,954	6,761,065
Interest	4,071,621	4,591,656
Rent and miscellaneous income — net	80,239	1,305,645
Interest on long-term debt, including amortization of discount	(11,029,849)	(10,299,738)
Minority interest	(19,877)	(21,762)
Total other income — net	(122,912)	2,336,866
INCOME BEFORE FEDERAL INCOME TAXES	24,303,767	22,342,665
FEDERAL INCOME TAXES (note 2)	1,342,886	2,420,672
NET INCOME — In conformity with I.C.C. accounting rules	$ 22,960,881	$ 19,921,993
NET INCOME PER SHARE — In conformity with I.C.C. accounting rules (including $.33 and $.54 in 1968 and 1967, respectively, attributable to acceleration of depreciation deductions for income tax purposes) (note 2)	$ 3.73	$ 3.24

STATEMENT OF CONSOLIDATED RETAINED INCOME

	1968	1967
RETAINED INCOME AT BEGINNING OF YEAR	$451,580,137	$450,123,807
NET INCOME FOR YEAR	22,960,881	19,921,993
CASH DIVIDENDS ON COMMON STOCK $3.00 per share in each year (note 3)	(18,474,862)	(18,465,663)
RETAINED INCOME AT END OF YEAR (note 2)	$456,066,156	$451,580,137

See accompanying Notes to Financial Statements

GREAT NORTHERN RAILWAY COMPANY
AND MAJORITY-OWNED SUBSIDIARY COMPANIES

RESTATED NET INCOME

	For the years ended December 31, 1968 and 1967 1968	1967
NET INCOME — In conformity with I.C.C. accounting rules	$ 22,960,881	$ 19,921,993
Add (Deduct)		
Equity of Great Northern Railway Company in consolidated net income of:		
Chicago, Burlington & Quincy Railroad Company	7,880,326	6,119,116
Spokane, Portland and Seattle Railway Company	518,228	555,710
Dividends received from C.B.&Q. and included in net income of Great Northern Railway Company	(6,226,343)	(6,226,343)
NET INCOME — In conformity with I.C.C. accounting rules, including equity in consolidated net income of C. B. & Q. and S. P. & S.	$25,133,092	$20,370,476
Reduction of Federal income taxes resulting from deductions (net) for depreciation and amortization for income tax purposes in excess of those recorded in the accounts:		
Great Northern Railway Company and subsidiaries	2,050,000	3,300,000
C.B.&Q. and S.P.&S. (net)	1,159,507	957,980
Total	3,209,507	4,257,980
NET INCOME — In conformity with generally accepted accounting principles including equity in consolidated net income of C.B.&Q. and S.P.&S.	$ 21,923,585	$ 16,112,496
NET INCOME PER SHARE — I.C.C. accounting rules	$ 4.08	$ 3.31
NET INCOME PER SHARE — generally accepted accounting principles	$ 3.56	$ 2.62

CHANGE IN WORKING CAPITAL

January 1 to December 31, 1968

BALANCE AT BEGINNING OF YEAR		$ 49,580,136
SOURCES OF WORKING CAPITAL:		
Net income	$22,960,881	
Depreciation and other non-cash income items	24,701,283	
Total provided from operations	47,662,164	
Sale of property, investments, and other assets	4,306,316	
Sale of common stock (stock option)	209,252	
Proceeds from equipment financing	12,517,751	64,695,483
		114,275,619
APPLICATIONS OF WORKING CAPITAL:		
Additions and betterments to property and equipment	28,391,414	
Reduction in long-term debt	16,005,104	
Dividends on common stock	18,474,862	
Other — net	3,391,020	66,262,400
BALANCE AT END OF YEAR		$ 48,013,219
NET DECREASE IN WORKING CAPITAL		$ 1,566,917

See accompanying Notes to Financial Statements

GREAT NORTHERN RAILWAY COMPANY
AND MAJORITY-OWNED SUBSIDIARY COMPANIES

BALANCE SHEET

December 31, 1968 and 1967

ASSETS	1968	1967
CURRENT ASSETS:		
Cash and temporary cash investments	$ 64,847,167	$ 59,402,138
Accounts receivable	25,694,229	24,607,054
Materials and supplies, at cost	21,543,056	23,793,447
Other current assets	813,923	682,156
Total current assets	112,898,375	108,484,795
CAPITAL AND OTHER SPECIAL FUNDS	5,889,214	2,305,606
INVESTMENTS, AT OR BELOW COST:		
Common stock of major jointly-owned affiliates (Great Northern's equity in undistributed earnings since dates of acquisition is $269,002,460; $266,830,249 in 1967)	129,245,456	129,245,456
Other investments	30,861,831	30,918,084
Total investments	160,107,287	160,163,540
PROPERTIES:		
Road and roadway structures, etc.	593,420,305	589,354,125
Equipment	500,622,785	503,929,623
Total transportation property	1,094,043,090	1,093,283,748
Allowance for depreciation and amortization (note 6)	311,723,418	310,007,308
Net transportation property	782,319,672	783,276,440
Non-operating property	23,458,828	20,743,100
Net properties	805,778,500	804,019,540
OTHER ASSETS AND DEFERRED CHARGES	10,747,020	13,185,137
Total assets	$1,095,420,396	$1,088,158,618

See accompanying Notes to Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY	1968	1967
CURRENT LIABILITIES:		
Accounts payable	$ 22,591,276	$ 21,067,327
Accrued payroll and vacation pay	13,051,787	12,233,185
Accrued taxes	16,730,229	16,950,398
Dividends payable	4,620,402	4,617,203
Other current liabilities	7,891,462	4,036,546
Total current liabilities (excluding debt due within one year)	64,885,156	58,904,659
DEBT DUE WITHIN ONE YEAR	11,725,661	15,828,221
LONG-TERM DEBT:		
General mortgage bonds:		
Due — Rate — Amount		
1973 — 5% — $14,154,900		
1976 — $4^1/_2$% — 14,508,000		
1982 — $2^3/_4$% — 40,000,000		
1990 — $3^1/_8$% — 37,500,000		
2000 — $3^1/_8$% — 37,500,000		
2010 — $2^5/_8$% — 35,000,000	178,662,900	178,662,900
Equipment and other obligations	95,037,534	93,873,591
Total long-term debt	273,700,434	272,536,491
RESERVE FOR UNFUNDED PAST SERVICE PENSION COSTS (note 5)	9,500,000	9,500,000
OTHER RESERVES AND LIABILITIES	6,495,619	6,964,202
Total liabilities	366,306,870	363,733,573
MINORITY INTEREST IN SUBSIDIARY	189,644	196,434
SHAREHOLDERS' EQUITY:		
Common stock without par value, authorized 7,500,000 shares; outstanding, 1968, 6,160,527 shares; 1967, 6,155,662 shares (excluding treasury stock, 1968, 48,430 shares; 1967, 53,295 shares)	271,751,725	271,537,122
Capital surplus (note 7)	1,106,001	1,111,352
Retained income (note 2), excluding undistributed earnings of major jointly-owned affiliates	456,066,156	451,580,137
Total shareholders' equity	728,923,882	724,228,611
Total liabilities and shareholders' equity	$1,095,420,396	$1,088,158,618

GREAT NORTHERN RAILWAY COMPANY
AND MAJORITY-OWNED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1968

1. Principles of Consolidation and Other Matters

The consolidated financial statements include all subsidiary companies over 50% owned. Investments in stock of the Chicago, Burlington & Quincy Railroad Company (48.59% owned) and of three additional companies included in other investments in the accompanying balance sheet, at an aggregate carrying value of $109,504,385 have been pledged under the general mortgage bonds. The investment in the Spokane, Portland, and Seattle Railway Company (50% owned) with a carrying value of $20,000,000 is restricted as to disposition under an agreement with the joint owner.

2. Federal Income Taxes

The provisions of the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission vary from generally accepted accounting principles in that no recognition is given in the accounts to the possible effect on Federal income taxes in future years of current reductions in income taxes resulting from deductions (net) for amortization and depreciation of property for income tax purposes in excess of those recorded in the accounts. The cumulative amount of such reductions in Federal income taxes included in retained income at December 31, 1968, was $73,150,000 of which $2,050,000 and $3,300,000 were included in net income for the years 1968 and 1967, respectively. Investment credit of approximately $1,900,000 was used in 1968. At December 31, 1968 the Company had an unused investment credit carry-forward of approximately $7,900,000.

3. Merger and Dividends

Under the terms of the Merger Agreement entered into in 1961, the Company cannot increase its dividend rates without the mutual consent of the parties to the agreement. See page 5 for information on the current status of the merger.

4. Contingent Liabilities

At December 31, 1968, the Company was liable as guarantor, individually or jointly with others, of certain obligations of affiliated companies amounting to $19,561,000. In addition, the Company is contingently liable as guarantor, together with other participating companies, of certain of the obligations of Trailer Train Company. At December 31, 1968 such obligations aggregated approximately $64,600,000.

The Company carries a service interruption policy under which it will be entitled to indemnity for certain work-stoppage losses. Additional premiums, in the maximum amount of $3,532,000, may be required if other railroads holding similar policies sustain such losses.

5. Pension Plan

The Company and its subsidiaries have a noncontributory pension plan which provides pension and supplemental retirement benefits to substantially all regular salaried employees. The Company's policy is to fund pension cost accrued. The provision for pension costs for the year was $1,191,494. The pension fund together with the balance sheet reserve exceeds the actuarially computed value of vested benefits.

6. Depreciation and Retirements

The current cost of repairs and renewals of parts of the track structure is charged to maintenance expense, and additions and betterments to the structure are capitalized. Provision for depreciation has been made as to other classes of transportation property. Charges to operating expense in 1968 for depreciation, on a straight-line basis, and for repairs and renewals of the track structure amounted to $22,301,287 and $13,794,467, respectively; comparable charges for 1967 were $21,286,410 and $13,968,516, respectively.

7. Stock Options

The Company's Restricted Stock Option Plan provides for the granting of options to officers and key employees. The option price is the market value of the stock at the time the option was granted. At December 31, 1968, 20,576 shares are issuable pursuant to outstanding options. During 1968, options for 4,865 shares were exercised. The changes in common stock and capital surplus resulted from sales of stock under the option plan.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

W-1585 FIRST NATIONAL BANK BUILDING
SAINT PAUL 55101

ACCOUNTANTS' OPINION

Great Northern Railway Company:

We have examined the consolidated balance sheet of Great Northern Railway Company and its majority-owned subsidiary companies as of December 31, 1968 and the related statements of consolidated income, retained income, and restated net 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 for the inclusion in retained income of the cumulative reduction in income taxes referred to in Note 2 to the financial statements, the accompanying consolidated financial statements and statement of restated net income present fairly the financial position of the companies at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 19, 1969

Haskins & Sells

GREAT NORTHERN RAILWAY COMPANY

FINANCIAL REVIEW

(Thousands of Dollars)

CONDENSED STATEMENT OF INCOME

	1968	1967
Operating revenues	$ 266,304	$ 260,243
Operating expenses	217,280	212,853
Revenues over expenses	49,024	47,390
Taxes	26,633	27,452
Equipment and joint facility rents — net	1,817	4,346
Operating income	20,574	15,592
Other income	11,041	12,896
Interest on long-term debt, including amortization of discount (deduct)	(9,815)	(9,165)
Net income	$ 21,800	$ 19,323

STATEMENT OF RETAINED INCOME

	1968	1967
Retained income at beginning of year	$ 434,859	$ 434,002
Net income for year	21,800	19,323
Dividends	(18,475)	(18,466)
Retained income at end of year	$ 438,184	$ 434,859

CONDENSED BALANCE SHEET

	1968	1967
Assets:		
Current assets and other special funds	$ 111,754	$ 106,125
Investments	175,134	174,444
Property investments — net	755,974	753,249
Other	10,562	10,751
Total assets	$1,053,424	$1,044,569
Liabilities and shareholders' equity:		
Current liabilities	$ 59,166	$ 57,305
Long-term debt due within one year	9,593	8,843
Long-term debt due after one year	256,522	253,732
Reserves and other liabilities	17,101	17,182
Total liabilities	342,382	337,062
Common stock	271,752	271,537
Capital surplus	1,106	1,111
Retained income	438,184	434,859
Total shareholders' equity	711,042	707,507
Total liabilities and shareholders' equity	$1,053,424	$1,044,569

Chicago, Burlington & Quincy Railroad Company and Subsidiaries
(48.59% of C. B. & Q. common stock owned by Great Northern Railway Company)

CONDENSED STATEMENTS OF INCOME AND RETAINED INCOME

December 31, 1968 and the year then ended (with comparative figures for 1967)

CONDENSED STATEMENT OF INCOME	(Thousands of Dollars) 1968	1967
Operating revenues	$335,403	$ 327,740
Operating expenses	267,820	268,579
Revenues over expenses	67,583	59,161
Taxes	29,221	28,434
Equipment and joint facility rents — net	14,103	12,604
Operating income	24,259	18,123
Other income	5,785	6,768
Fixed charges (deduct)	(13,336)	(11,991)
Minority interest (deduct)	(490)	(307)
Net income — in conformity with I.C.C. accounting rules	$16,218	$ 12,593

STATEMENT OF RETAINED INCOME	1968	1967
Retained income at beginning of year	$479,776	$ 479,996
Net income for year	16,218	12,593
Dividends (deduct)	(12,813)	(12,813)
Retained income at end of year	$483,181	$ 479,776

Great Northern's equity in the net income of the C. B. & Q. and subsidiaries is $7,880,326 in 1968; ($6,119,116 in 1967 of which $6,226,343 was received in dividends in both years and included in Great Northern income accounts for these years).

Spokane, Portland and Seattle Railway System
(50% of stock and 50% of bonds of S. P. & S. owned by Great Northern Railway Company)

CONDENSED STATEMENTS OF INCOME AND RETAINED INCOME

December 31, 1968 and the year then ended (with comparative figures for 1967)

CONSENSED STATEMENT OF INCOME	(Thousands of Dollars) 1968	1967
Operating revenues	$39,679	$ 38,739
Operating expenses	31,453	29,774
Revenues over expenses	8,226	8,965
Taxes	3,728	4,558
Equipment and joint facility rents — net	2,406	2,567
Operating income	2,092	1,840
Other income	594	676
Fixed charges (deduct)	(1,945)	(1,895)
Extraordinary and prior period items — net	295	490
Net income — in conformity with I.C.C. accounting rules	$1,036	$ 1,111

STATEMENT OF RETAINED INCOME	1968	1967
Retained income at beginning of year	$34,740	$ 33,629
Net income for year	1,036	1,111
Retained income at end of year	$35,776	$ 34,740

Great Northern's equity in the net income of the S. P. & S. and subsidiaries is $518,228 in 1968; ($555,710 in 1967).

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

MARTIN H. WEBER, *Assistant Treasurer and Transfer Agent, St. Paul*

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GREAT NORTHERN

Great Northern Railway Company, St. Paul, Minnesota 55101