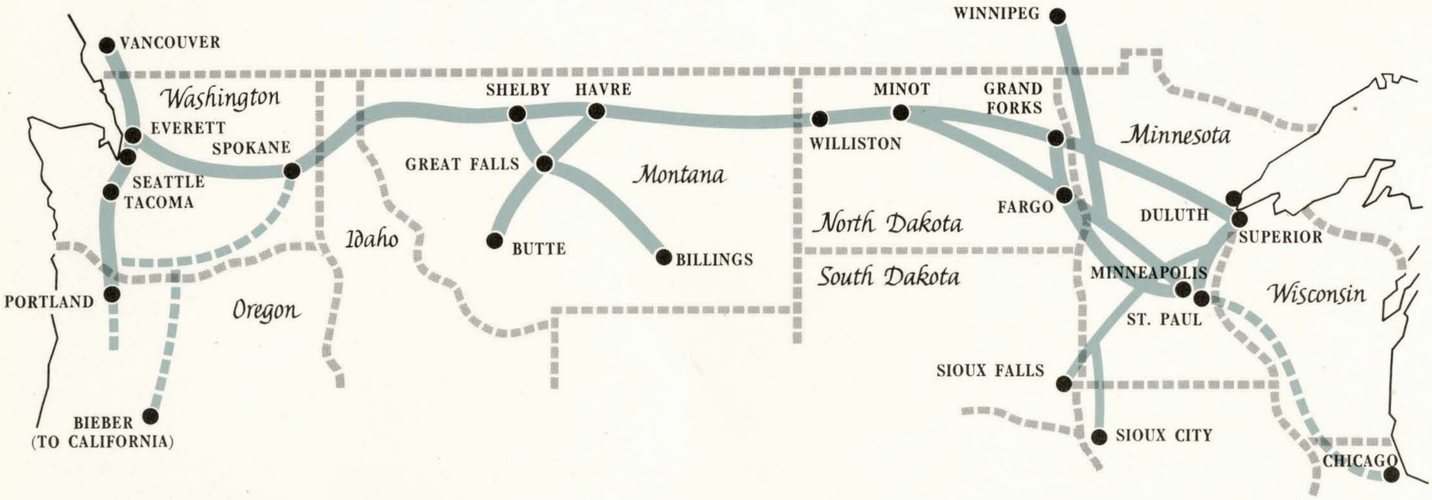
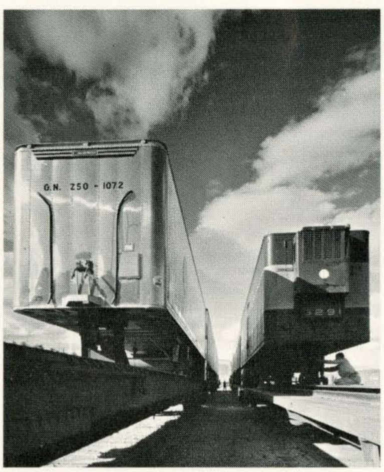
# GREAT NORTHERN RAILWAY

1965 Annual Report



Geographically speaking, "Great Northern territory" comprises ten states and two Canadian provinces served by the railway's 8,264 miles of main and branch lines. ✷ To a traveler on one of our passenger trains it is the unfolding of America the Beautiful . . . "for spacious skies, for amber waves of grain, for purple mountain majesties above the fruited plain." ✷ Economically, it is a diverse and vibrant region whose rich natural resources and growing production nourish the entire nation. It is a country with generous elbow room, particularly dependent on efficient, low-cost rail transportation to move its products to distant markets. ✷ Pictured on our cover are refrigerated piggyback vans being readied to roll eastward from the "Apple Capital of the World"—Wenatchee, Washington. It might have been hopper cars of grain or milled flour; bulkhead flats of packaged lumber or aluminum ingots; refrigerator cars of fish or frozen produce; gondolas of ore; tank cars of petroleum products; or a host of other commodities in a seemingly infinite variety of freight equipment. Thus we set the scene for our 77th Annual Report.

# Great Northern Railway Company 77th Annual Report for year ended December 31, 1965

| HIGHLIGHTS | 1965 | 1964 |
|---|---|---|
| *FINANCIAL DATA* | | |
| NET INCOME | $ 36,909,825 | $ 28,866,329 |
| Per share | $6.01 | $4.71 |
| DIVIDENDS PAID | $ 18,400,747 | $ 18,328,070 |
| Per share | $3.00 | $3.00 |
| SHAREHOLDERS | 45,014 | 44,365 |
| OPERATING REVENUES | $265,629,604 | $250,387,871 |
| OPERATING EXPENSES | 200,681,642 | 194,955,985 |
| FEDERAL INCOME TAXES | 5,787,578 | 4,206,142 |
| AVAILABLE FOR FIXED CHARGES | 45,371,888 | 37,008,272 |
| FIXED CHARGES | $ 8,462,063 | $ 8,141,943 |
| Times fixed charges earned | 5.36 | 4.55 |
| RETURN ON PROPERTY INVESTMENT | 4.72% | 3.71% |
| CASH AND TEMPORARY INVESTMENTS DEC. 31 | $ 86,373,046 | $ 73,815,134 |
| WORKING CAPITAL—DEC. 31 | 75,942,092 | 60,824,019 |
| FUNDED DEBT—DEC. 31 | $248,150,148 | $237,611,772 |
| *OPERATING AND WAGE STATISTICS* | | |
| MILES OF ROAD OPERATED | 8,264 | 8,261 |
| REVENUE NET TON MILES (MILLIONS) | 18,425 | 17,193 |
| REVENUE PASSENGER MILES (MILLIONS) | 424 | 423 |
| RATIOS TO REVENUES | | |
| Net income | 13.9% | 11.5% |
| Transportation expenses | 37.1% | 37.7% |
| Maintenance expenses | 30.5% | 32.2% |
| All operating expenses | 75.5% | 77.9% |
| EMPLOYEES | 16,655 | 17,002 |
| WAGES PAID | $122,678,073 | $117,860,466 |
| EMPLOYMENT COSTS | | |
| (Payroll plus benefits, payroll taxes, etc.) | $139,733,920 | $133,663,182 |

GENERAL OFFICES ........... Great Northern Building
St. Paul, Minnesota 55101

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

*TRANSFER AGENTS*

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

The annual meeting of Shareholders will be held at St. Paul on May 12, 1966

*To Great Northern Stockholders:*

Although record earnings were not considered probable at the beginning of 1965, Great Northern's operations last year resulted in the largest net income in the company's history.

Net income was $36.9 million as compared with $28.9 million in 1964. Included in 1965 was a refund of Federal income taxes and related net interest of $2.3 million.

Earnings per share in 1965 were $6.01 as compared with $4.71 in 1964. Dividends were continued at $3 per share.

Results during the first eight months were about as expected. In the last four months, however, there was an upsurge in business stemming in part from a heavy movement of grain and in part from an increase in Government traffic in support of the Vietnam action.

Operations during the year were fairly normal with the exception of the continued shortage of freight cars. Great Northern has maintained the level of its freight car ownership, and particularly of box cars, the principal part of our fleet. On the other hand, ownership of this type of equipment by other roads has been going down, and Great Northern cars are being used in other parts of the country to a greater extent than cars of other lines have been on our tracks. This uneven distribution of the national fleet has resulted in a steady decline for a number of years in the cars available to us for taking care of our customers' needs. During 10 of the 12 months in 1965, we had less than a reasonable percentage of our equipment on line.

The box car shortage began early in 1965 when the longshoremen's strike tied up a number of cars at ports on the Gulf Coast and on the Eastern Seaboard. The increased pace of business during the year throughout the country resulted in a slower return of cars to our lines. Emergency measures taken by the Association of American Railroads and by the Interstate Commerce Commission did not bring about the return of cars on a satisfactory basis.

The wide door box cars used for loading lumber, plywood and many other like commodities in the Pacific Northwest were especially short and hampered the normal operation of mills in that territory.

Narrow door box cars for the movement of grain were in very short supply, particularly during the last part of the year when the demand was heavy. Large covered hoppers which have been acquired in recent years have helped relieve this situation. A number of these cars were added in 1965 and more are scheduled for delivery in 1966.

Work is well along on the construction of two taconite pellet plants on the Mesabi Range in Minnesota which will be served by Great Northern. Trackage to serve these plants and storage facilities at the lake front at Superior, Wisconsin, with a belt conveyor system for the loading of pellets into boats, are being built by Great Northern at a cost of about $8 million. We anticipate that further development of taconite on the Mesabi Range will be undertaken in the not too distant future. The transition from the use of natural iron ore to a concentrated form is one which we have anticipated for some time.

A significant adjustment in grain rates was made effective during the year for the purpose of moving wheat from the Dakotas and eastern Montana to West Coast ports for export to Japan. The rates are unusual but they have been successful and have stimulated a substantial movement. We anticipate that this will become an additional permanent and stable market for the products of this area and permit greater production of the high quality wheat grown there.

The Transcontinental Divisions case involving the division of freight rates on through shipments between West and East has been in dispute for a number of years. A partial settlement between the Eastern and Western railroads was reached in 1965 leaving only that part of the case involving the Midwestern lines still unresolved. The agreement was effective September 1, 1965 and by order of the Interstate Commerce Commission the 1965 revenues set aside in a reserve account prior to that date were released and added to the 1965 revenue accounts.

As reported last year, the agreement with representatives of our employees made late in 1964 provided for a substantial increase in rates of pay effective January 1, 1965, and a further increase for non-operating employees became effective January 1, 1966. The increase for 1965 was only partially absorbed and payrolls were nearly $5 million higher than in the previous year.

In an arbitration proceeding, we gained the right to reduce the number of switchmen required on about 300 crews throughout the system. This reduction will take place gradually as employees leave the service through resignations, retirements, deaths, or other natural causes. There will be a delay in making the permitted reductions in Wisconsin, however, since an excess crew law governing the size of switch crews is still in effect in that state.

The proposed merger of the Great Northern, Northern Pacific, Burlington, and Spokane, Portland and Seattle railways moved one step further to final determination. Oral argument before the full Commission was presented in June. A decision in the case is expected momentarily.

Meanwhile, agreements covering the method of integrating operations and providing protection for adversely affected employees have been worked out with two major operating unions, the Brotherhood of Locomotive Engineers and the Brotherhood of Railroad Trainmen. These will be of very great assistance in achieving a smooth transition to unified operation if the merger is approved.

Great Northern properties continue in excellent condition. Cash and temporary cash investments, as well as working capital, increased during the year.

We are off to a good start in 1966 with excellent prospects for a good year. There was a very substantial harvest of grain in 1965 with much of it remaining in storage for movement in 1966.

For 1966 we are again planning a substantial capital improvement program, with particular emphasis on acquisition of freight cars replacing older, obsolete and worn out equipment with units of higher capacity.

Two elected officers of the company found it necessary to end their Great Northern careers this past year for reasons of health. Retirement came for Clyde A. Pearson, vice president-personnel, on August 31, 1965; and for C. E. Finley, vice president-traffic, on February 1, 1966. Both of these men have been of great value to the company and their leadership has been most conspicuous.

Ably succeeding them are Thomas C. Debutts, as vice president-labor relations, and M. M. Scanlan, new head of Great Northern's Traffic Department.

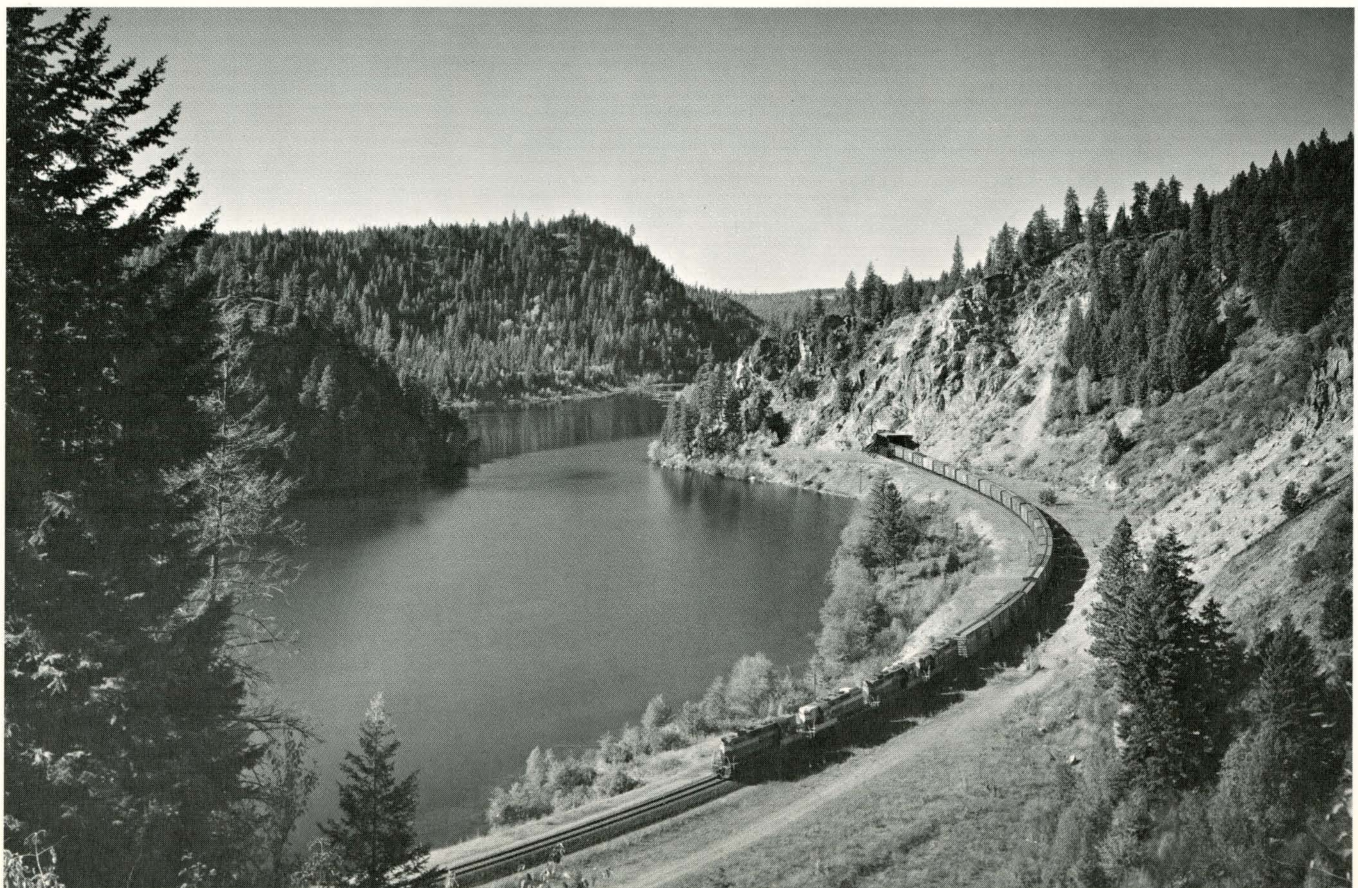
The officers and employees have done a splendid job in operating the company during the past year and I would like to acknowledge their contributions to the success that we have had.

JM Budd

March 1, 1966

PRESIDENT

East of Spokane, Washington, Great Northern's main line penetrates lovely and remote Scotia Canyon, not far from the Washington-Idaho border. In this idyllic setting a freight train is pictured winding along the Little Spokane River.



# FINANCIAL 1965

The year 1965 began with business activity at a lively pace, although early comparisons with 1964 were not favorable. First quarter results saw operating revenue and net income off from the previous year. This was expected, however, for an unusually heavy movement of export grain in early 1964 was not duplicated in 1965. Thereafter, in each quarter, operating revenue and net income exceeded the corresponding periods in 1964 and the averages of the past five years. The final quarter had a particularly heavy upsurge of traffic. Accordingly, 1965, which had seemed at mid-year to be only an average year, became one of record earnings.

## NET INCOME

Net income of $36.9 million, equal to $6.01 per share, was earned in 1965, compared with $28.9 million or $4.71 per share in 1964.

The increase in net income was due to improved operating results, an income tax refund which offset in part higher Federal income taxes and settlement of litigation over divisions of certain through freight rates on traffic moving between the East and far Western points.

The annual dividend of $3.00 per share was continued in 1965 with quarterly payments of 75c per share.

Operating revenues for 1965 of $265.6 million were $15.2 million more than in 1964. Although many of the costs of business, such as wages and materials, were higher, the 6.1% increase in business was handled with an increase of only 2.9% in operating expenses. The net result of railway operations before Federal income taxes was up $9.2 million or 30.9%. Taxes increased $2.9 million, due principally to higher income tax accruals.

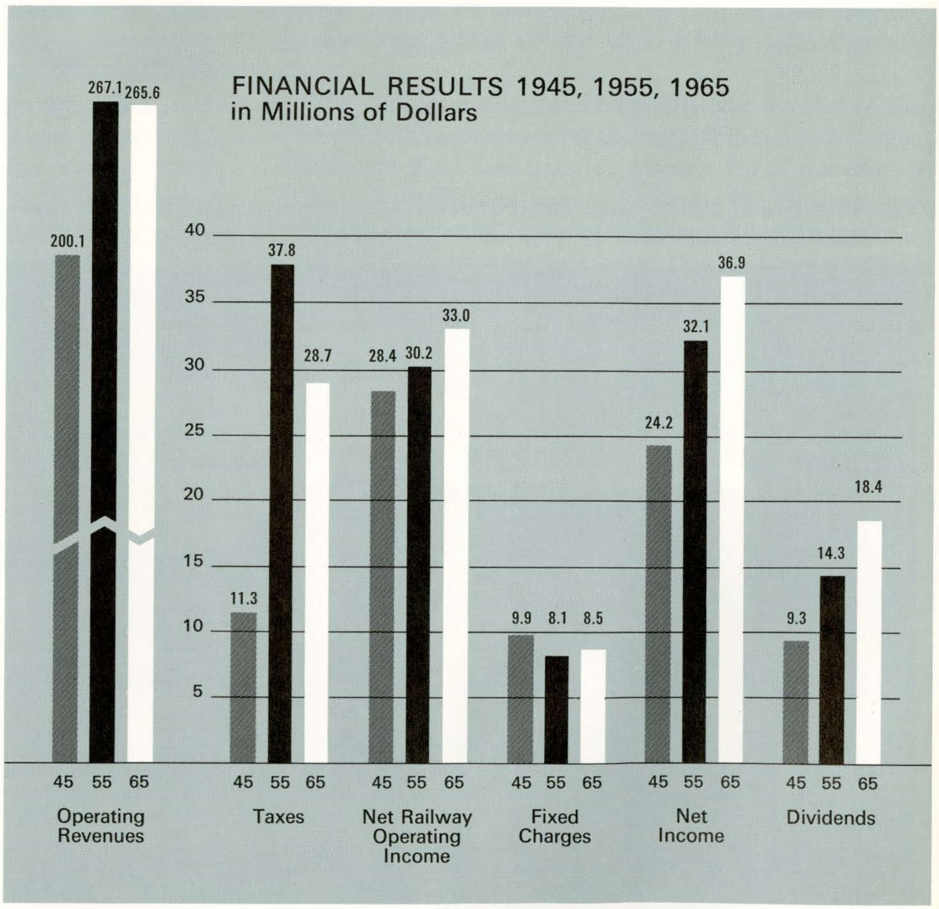
Fixed charges were earned 6.05 times before Federal income taxes and 5.36 times after taxes, the best coverage on record. "Other Income" continued to be an important source of financial strength. The amount received, primarily interest and dividends from investments, rose to $13.3 million in 1965. This source of income has risen in each of the last five years and compares with an average of $11.0 million in 1957-59.

Net income of Great Northern as reported does not include its share of the undistributed net income of partially or wholly-owned affiliated companies. These include 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. These earnings are not taken into Great Northern accounts and in 1965 amounted to $4.9 million or 80c per share of Great Northern stock.

## FINANCIAL POSITION AT END OF YEAR

At the end of 1965 cash and temporary investments amounted to $86.4 million, an increase of $12.6 million during the year.

Current assets were $130.2 million and current liabilities were $54.3 million. The level of net working capital, including debt due within a



year, increased substantially during the year from $52.3 million to $67.4 million, giving added flexibility in handling financial matters and in meeting problems requiring cash.

Funded debt consisting of the mortgage bonds and equipment trust certificates held by the public was $248.2 million at the end of 1965, an increase of $10.5 million during the year.

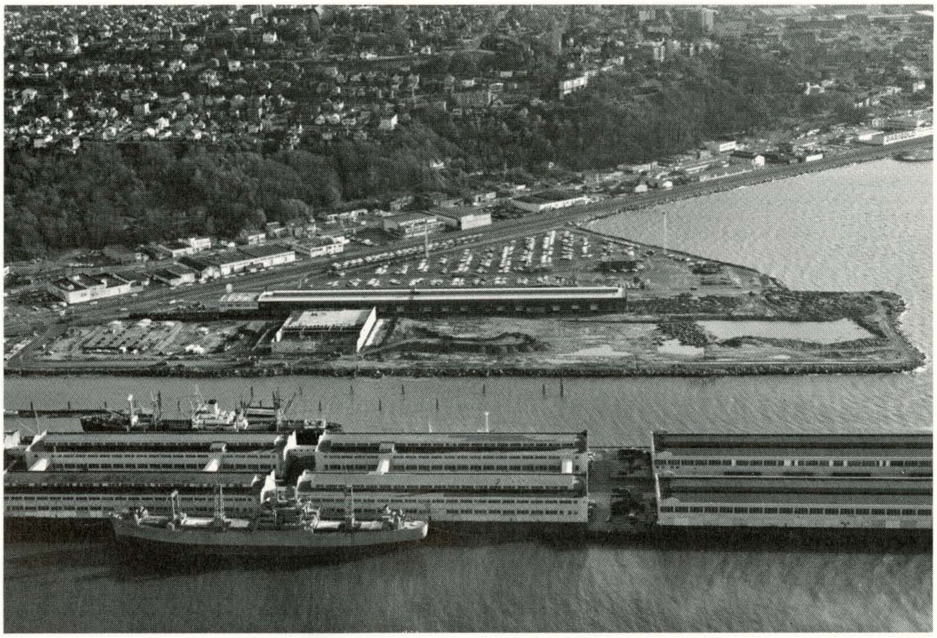
## REPORT ON UNIFICATION

The unification of Great Northern, Northern Pacific, Burlington and Spokane, Portland and Seattle into a single system moved ahead slowly in 1965. In August 1964, the hearing examiner filed his report with the Interstate Commerce Commission recommending that the merger be approved subject to certain conditions. Exceptions to the examiner's report were filed by the applicants and other interested parties early in January 1965, with replies to the exceptions filed by March 15.

On June 16-17, 1965 the applicants and some of the principal parties argued the case orally before the members of the Commission. This completed all of the procedural steps leading to the decision of the Commission, expected early in 1966.

During the year a number of other railroad mergers in Western territory made progress. One of them, that of the Chicago and North Western and Chicago Great Western advanced through all of the hearing stages and a decision by the Commission was expected soon after the beginning of 1966. Still other mergers affecting nearly all of the Great Northern's competitors and connections were in various stages of proceedings during 1965.

Land fill continues to create new industrial property at the site of GN's historic Smith Cove ocean terminal at Seattle. Construction in 1965 included a Papercraft Specialties warehouse and expansion of Convoy Company's auto-handling facilities.



| 1965 INCOME in Millions of Dollars | | $278,890,331=100% |
|---|---|---|
| Freight Revenue | $236.9 | 84.9% |
| Passenger Revenue | $ 10.1 | 3.6% |
| Mail Revenue | $ 9.1 | 3.3% |
| Express Revenue | $ 1.4 | 0.5% |
| Other Revenue | $ 8.1 | 2.9% |
| Other Income | $ 13.3 | 4.8% |

| 1965 OUTGO in Millions of Dollars | | |
|---|---|---|
| Wages Chargeable to Operating Expenses | $118.9 | 42.7% |
| Other Operating Expenses—Rents, etc. | $ 85.9 | 30.8% |
| Taxes | $ 28.7 | 10.3% |
| Fixed Charges | $ 8.5 | 3.0% |
| Dividends | $ 18.4 | 6.6% |
| For Reinvestment, etc. | $ 18.5 | 6.6% |

# REPORT ON OPERATIONS

Excepting the first quarter of 1965, freight traffic volume exceeded that of each corresponding period in 1964. As the year ended, the level of traffic was particularly high. Operations during the year were relatively normal with no major incidents such as the floods of June 1964.

Maintenance programs were completed, and the condition of both track and equipment is excellent. The capital expenditure program for new freight equipment was the largest in a number of years. With more revenue and a less than proportional increase in expenses, the heavier business was handled with greater efficiency.

## OPERATING REVENUES

Sources of operating revenues were:

| | Operating Revenues (millions) 1965 | 1964 | Per Cent Change |
|---|---|---|---|
| Freight | $236.9 | $222.2 | 6.6-I |
| Passenger | 10.1 | 9.8 | 2.2-I |
| Mail and express | 10.5 | 10.4 | 2.0-I |
| All other operating | 8.1 | 8.0 | 2.3-I |
| Total | $265.6 | $250.4 | 6.1-I |

## FREIGHT REVENUE

Freight revenue makes up 89% of Great Northern's operating income. In some years the diversity of the principal sources is helpful when crops fail in one area but are good in others, or when one industry is depressed but others remain prosperous. However, in 1965 all of the principal sources of revenue were exceptionally productive. The most important items in the diversified traffic mix are shown in the table at the right.

The movement of grain was again the largest single source of Great Northern's revenue, with significant quantities grown in most of the states served.

At the beginning of 1965 an estimated 255 million bushels were in storage awaiting movement from farms and country elevators.

Planting was delayed in some of the most important areas by a cool, wet spring, but growing conditions were nearly ideal and very heavy yields were obtained. Although very heavy shipments occurred in the fourth quarter of the year, the amount of grain in storage awaiting movement at the end of 1965 is estimated at 273 million bushels. This is a near record, and prospects for shipments in 1966 are excellent.

Crop prospects for 1966 are favorable, with excellent moisture reserves in the important growing areas and a good winter snow cover.

Revenues from lumber, plywood and other wood products increased for the fourth successive year. Lumber movement ordinarily follows the trend of housing starts, but in 1965 Great Northern's revenues increased in spite of a moderate decline nationally in new housing activity.

At the beginning of the 1965 shipping season inventories of iron ore were relatively low. Consumption of ore during the year was heavy due to the high rate at which the steel industry was operating. Shipments from the Mesabi Range followed approximately the normal pattern, with some emphasis on building up supplies in the early part of the season. For the year, 15.2 million tons moved over Great Northern's docks at Allouez, Wisconsin, the best tonnage since 1960 and an increase of one million tons above the 1964 level.

Freight rate levels were not changed materially in 1965 although average revenue per ton mile declined 0.54%. For the country as a whole, freight rates have decreased 14% since 1958, a period in which the general price level increased nearly 10%. Railroad freight service is becoming a real bargain. Great Northern is no exception and as a result some commodities are being shipped for longer distances than was economically possible in the past. This explains in part the fact that the average length of haul of freight shipments has increased 27% since 1950—from 296 miles to 375 miles.

One of the outstanding developments in rate making in 1965 was the establishment of new reduced rates on export grain moving west bound from the Dakotas and eastern Montana to North Pacific Coast ports. The three northern transcontinental railroads, of which Great Northern is one, participated. The problem was to provide a rate structure which would encourage the movement of surplus grain to markets in

| Commodity | 1965 Revenues (Millions) | 1964 Revenues (Millions) | Per Cent Change in 1965 |
|---|---|---|---|
| Grain and grain products | $60.1 | $55.8 | 7.7-I |
| Lumber and products | 41.9 | 40.2 | 4.2-I |
| Iron ore including dock charges | 19.9 | 19.0 | 4.7-I |
| Wood pulp, paper and paper products | 11.9 | 11.4 | 4.4-I |
| Crude petroleum and petroleum products | 6.4 | 5.9 | 8.5-I |
| Alumina | 6.0 | 5.2 | 15.4-I |
| Steel mill products | 5.7 | 5.8 | 1.7-D |
| Automobiles and trucks | 5.5 | 5.2 | 5.8-I |
| Coal and coke | 5.5 | 5.1 | 7.8-I |
| Fresh fruits | 5.1 | 6.3 | 19.0-D |
| Aluminum smelter products | 4.6 | 3.9 | 17.9-I |

Electronically activating switches and signals from his console at King Street Station in Seattle, this CTC (centralized traffic control) dispatcher regulates the movement of trains over 139.5 miles of line east and west of the Cascade Mountains.

the Far East without disrupting the normal markets for spring wheat grown in this great agricultural area. Although the rates are somewhat of an innovation, they have proved successful. In less than six months, over 20 million bushels were moved into position for export, with Great Northern handling a major share.

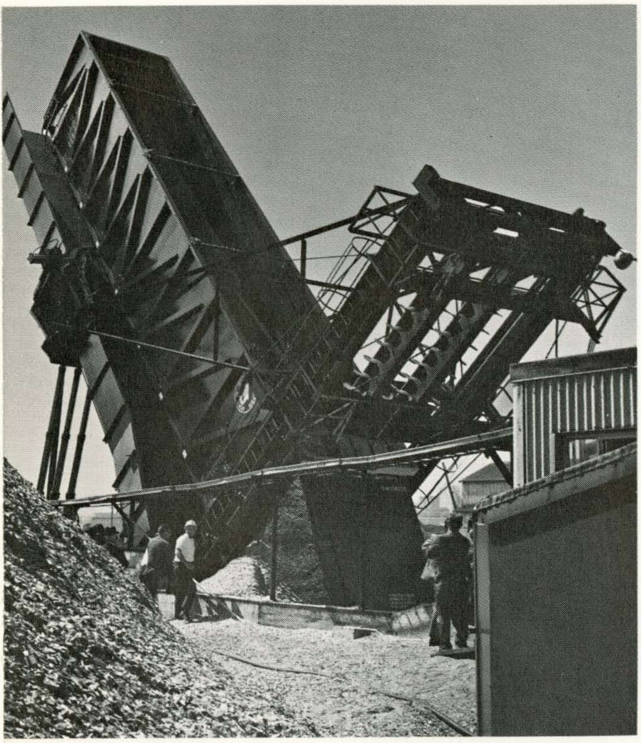
## PASSENGER TRAIN REVENUE

Passenger revenue, continuing the slow upward trend of recent years, reached $10.1 million, an increase of 2.2% from 1964. Income from mail handling also increased moderately, with records being set in the movement of westbound mail from the Twin Cities. The passenger car fleet was improved by addition of two coaches and three baggage cars purchased secondhand. In progress at the year's end was acquisition of four more coaches and a diner from another railroad. This modern equipment will permit retirement of older obsolete cars, improving the quality of Great Northern service.

## OPERATING EXPENSES

Railway operating expenses in 1965 amounted to $200.7 million, up $5.7 million or only 2.9% from 1964. This was a notable achievement in view of the fact that the physical volume of freight moved as measured by revenue ton miles increased 7.2% and operating revenues increased 6.1%. The operating ratio—that is, the proportion of operating expenses to revenue—declined from 77.9% to 75.5%. The 1965 ratio was the best since 1956.

Maintenance of way expenses were down from $39.2 million in 1964 to $36.2 million in 1965. The reduction to a large extent resulted from the absence of the unusual flood repair costs of June 1964 which caused so



A huge "upender" unloads 100-ton wood chip cars at St. Regis Company's pulp and paper plant in Tacoma, Washington. GN bought 50 of these cars in 1965 and included another 150 in its 1966 equipment program.


Washington State grain inspectors at Spokane take a wheat sample from a new GN "jumbo" covered hopper. These efficient cars carry half again as much grain as the average box car and are much more quickly loaded and unloaded. We added 300 to our fleet in 1965 and will acquire another 300 during 1966.

much damage in the Rocky Mountains. During April-May 1965 most railroads in the Upper Mississippi River Valley suffered heavy flood damage. In general, Great Northern was not involved except that the very strong current in the Mississippi River undermined a pier in the historic stone arch bridge at Minneapolis. Repairs and protection work cost over $800,000, borne partially by tenant lines.

Maintenance of equipment expenses were up $3.3 million because of higher wage rates and charges for depreciation. The greater volume of traffic and the necessity of keeping all possible equipment in service to handle it also contributed to higher expenses.

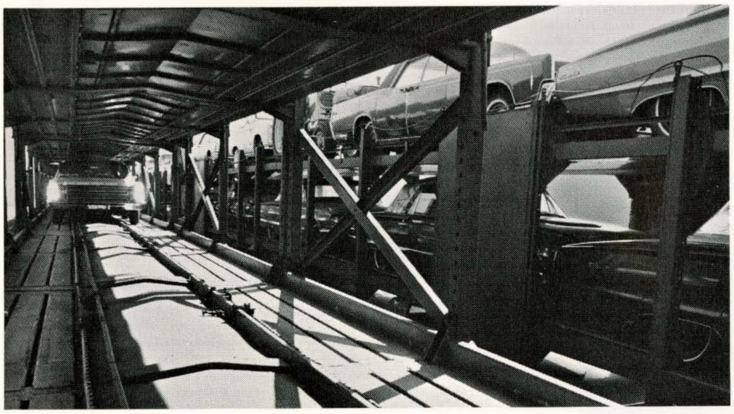
During 1965, operating efficiency reached record high levels in many respects. Gross ton miles per train hour, which reflects the best combination of freight train loading and speed, exceeded all previous records at 80,673. Freight cars traveled further per day at faster speeds and hauled more freight per car load on the average in 1965 than ever before. This improvement in utilization of equipment is an objective of the highest importance in view of the increasing volume of traffic and the difficulty experienced in holding enough equipment on the line to meet the needs of shippers.

## TAXES

Taxes accrued in 1965 were $28.7 million, an increase of $2.9 million. Federal income taxes were up because of greater taxable income, but would have been $1.7 million higher except for a refund of 1953-56 taxes paid. Net interest of $630,000 after taxes was received on this refund, which resulted principally from adjustments of depreciation allowances. Also affecting Federal taxes for 1965 was the 7% investment credit authorized by the tax laws to encourage modernization of equipment and facilities. Great Northern's credit for 1965 resulting from our very large equipment program in recent years was $3 million ($2.2 million in 1964).

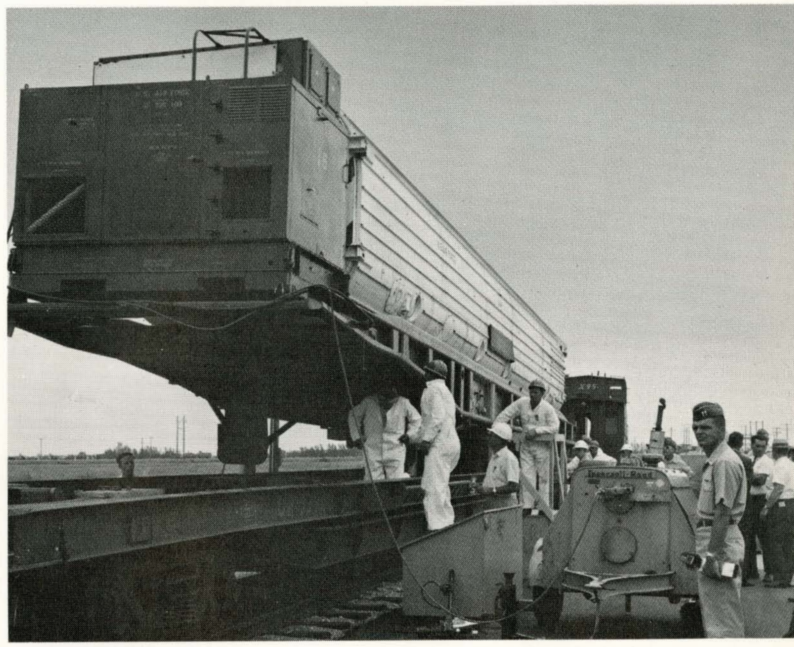
Other taxes, including payroll taxes at increased rates on higher wages paid and certain other miscellaneous taxes, increased during 1965.

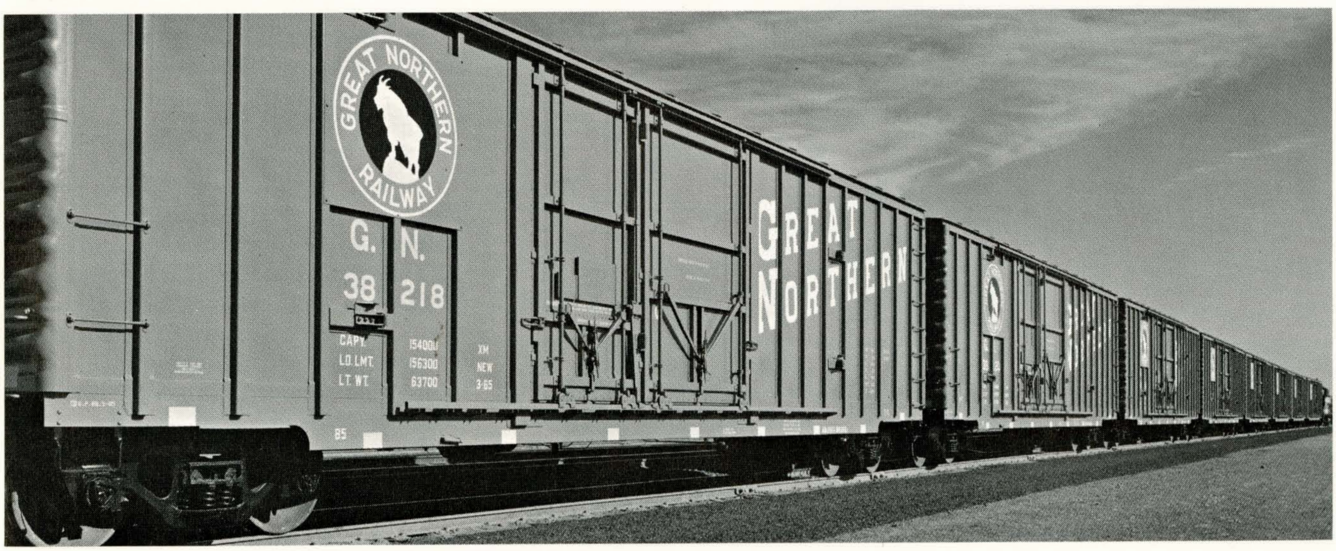
To help meet the requirements of heavier tonnages and exacting schedules, we concentrated our 1965 purchases of motive power on big freight engines like this 2500 HP diesel-electric, one of 30 such units ordered as replacements for older locomotives.

A banner year in the automotive industry was paced by another healthy increase in the rail movement of new vehicles. The GN-served facility where these cars are being unloaded in Seattle has been enlarged to handle approximately 24,000 units yearly.

Traveling Great Northern in an air-conditioned "cocoon," the first Minuteman II missile was delivered in August, 1965 to the 9,500-square-mile ICBM defense complex being completed near Grand Forks, North Dakota. Underground silos will house 150 of the missiles.






Specialized equipment has held the spotlight, but the box car is still the workhorse of our freight fleet. The big 50-foot cars shown here are priced at more than $13,500 each and are part of a 1965 order of 300 cars of this type.

Two significant track improvements were made in the Montana Rockies in 1965, considerably reducing main line curvature in the Summit and Red Eagle areas. This aerial view of the Red Eagle project shows where three curves were eliminated in a distance of 8,575 feet. U. S. Highway 2 parallels the rails here.

# IMPROVEMENTS IN FACILITIES

The improvement program for 1965 was the largest in many years, with capital expenditures concentrated on new freight equipment because of the expanding volume of traffic. Total additions and betterments to the property were $35.7 million, of which $7.9 million were spent on roadway and $27.8 million on equipment.

## EQUIPMENT PROGRAM

In keeping with the trend toward replacement of older diesel locomotives, 30 new 2,500 H.P. road freight units were acquired and a like number of 15- to 20-year-old units of lesser horsepower turned in to the builders. The new units are very effective in handling present day high-speed freight trains and at the same time reducing maintenance costs.

New freight cars acquired were mostly of general purpose types. All are equipped with roller bearings and many have special features such as cushion underframes and load restraining devices to minimize loss and damage to shipments.

## FIXED PROPERTY IMPROVEMENTS

Principal capital expenditures included completion of two line changes 1.17 miles and 1.63 miles long in the Rocky Mountains at Summit and Red Eagle, Montana. In North Dakota and eastern Montana, 8.1 miles of line were improved in alignment in connection with laying new rail and ballast. These projects reduce sharp curvature, making higher speeds possible and reducing maintenance costs.

On the Cascade Division in Washington, an existing centralized traffic control installation was extended eastward 51.4 miles from Merritt to Columbia River. Switches and signals are now remotely controlled for 139.5 miles on either side of the Cascade Mountains from the dispatcher's office in Seattle. Altogether, 1,188 miles of main lines are now controlled by CTC.

New 115 lb. rail was laid on 51 miles of main line, with secondhand material used to replace 63 miles of light, worn out rail on branch lines. Other maintenance of way work included replacement of 305,000 ties and application of 373,000 cubic yards of ballast. The physical condition of the railroad is good.

## PROGRAM FOR 1966

Emphasis will continue to be placed on freight equipment in the 1966 program, with total expenditures of $43.1 million anticipated. Of this, $15.1 million will be spent on roadway and $28.0 million for equipment.

Equipment replacements include 20 heavy-duty diesel-electric locomotives, six of which will be equipped for both passenger and freight service. To provide cars for a taconite pellet unit train from the Mesabi Range to the docks at Allouez, 220 existing ore cars will be rebuilt to increase capacity and roller bearings will be applied for greater dependability.

Improvements to fixed property in 1966 include extension of centralized traffic control for 36.4 miles from Columbia River to Ephrata, Washington. The second phase of line change work, to straighten curves in 2.6 miles of track between Summit and Glacier Park, Montana will be undertaken. Other track improvements include relaying 55 miles with new rail, most of which will be welded in continuous lengths, with 62 miles of secondary lines being relaid with secondhand rail.

Successful tests of a "breathing," water-proof paper for packaging lumber has sparked a rapid trend toward handling this product on flat cars. Great Northern's Economic Research Division directed such tests in 1965, utilizing new bulkhead flat cars with special tie-down equipment, being loaded here.


### NEW DIESELS AND FREIGHT EQUIPMENT DELIVERED IN 1965 AND PLANNED FOR 1966

| 1965 | 1966 | Type | Description |
|---|---|---|---|
| 30 | | 2500 HP diesel | Heavy duty freight engines. |
| | 6 | 3000 HP diesel | Combination freight and passenger engines. |
| | 8 | 3600 HP diesel | Heavy duty freight engines. |
| | 6 | 2800 HP diesel | Heavy duty freight engines. |
| 400 | 405 | Box cars | Wide door for lumber and general use. |
| 80 | 200 | Insulated box cars | Cushion underframe for food products, canned goods and other high-rated commodities. |
| 100 | 250 | Gondolas | General purpose. |
| 300 | 300 | Covered hoppers | 100-ton "jumbos" primarily for grain service. |
| 300 | | Flat cars | Cushion underframe for general service. |
| 20 | 125 | End bulkhead flats | Primarily for packaged lumber and aluminum ingots. |
| 50 | 150 | Wood chip cars | Large cars to move chips to paper mills. |
| | 25 | Airslide cars | For movement of bulk flour and sugar. |
| 5 | | Covered hoppers (secondhand) | 100-ton for feed and miscellaneous uses. |
| 150 | | Open hoppers (secondhand-leased) | For coal, sand and gravel. |
| 1,405 | 1,455 | TOTAL CARS ADDED TO GREAT NORTHERN FLEET | |
| | | **FOR WESTERN FRUIT EXPRESS COMPANY** | |
| 200 | 200 | Refrigerator cars | Mechanical temperature control. |
| 25 | | Insulated box cars | With integral heaters. |
| 1,630 | 1,655 | TOTAL GREAT NORTHERN AND W.F.E. CARS | |

The first phase of construction on the giant Libby Dam project in northwestern Montana will be underway in the Spring of 1966, and with the coming of June the unfamiliar dissonance of air drills and jackhammers will echo across the rugged slopes of Elk Mountain, deep in Kootenai National Forest.

Damming of the Kootenai River a short distance upstream from the town of Libby will create a 90-mile-long reservoir, extending into Canada. This will require a major relocation of Great Northern's main line, including a 7-mile tunnel to be punched under remote Elk Mountain.

An immediate economic impact on northwestern Montana and on Great Northern as its principal transportation facility will result from the beginning of construction on the dam and related projects.

Pictured above with an enlarged relief map of the area is George V. Guerin, the railway's chief engineer, who is pointing to the locale of the line change and tunnel. Also shown are the dam site and the pool which will inundate approximately 48 miles of our present main line.

The 59 miles of new line may well be the largest U. S. railroad construction project of this decade, and is the most extensive single undertaking on Great Northern in 35 years. The new tunnel will be exceeded in length only by our 7.79-mile Cascade Tunnel, longest railroad bore in the Western Hemisphere.

Five projects, three of them beginning in 1966, are included in the relocation contract. Estimated cost is $110 million, next only to the dam and powerhouse in the overall estimated cost of $352 million. Construction and financing will be entirely by the Federal government, with Great Northern reviewing and approving plans and specifications affecting the railway.

Opening of the relocated main line, scheduled for November 1, 1970, will shorten rail distance between Whitefish and Libby by some 15 miles. This advantage will be offset, however, by steeper grades in each direction.

Libby Dam is provided for in an international treaty agreement signed by Canadian Prime Minister Pearson and President Johnson in 1964 after many years of negotiations between the two nations on a plan for comprehensive development of the Columbia River Basin. The mammoth concrete structure will rise 420 feet above bedrock and measure 3,035 feet across its crest. The hydropower plant will have an initial installation of three 105,000-kilowatt generators and provisions for future additional units.

# TRAFFIC DEVELOPMENT

Traffic is the life blood of a railroad, and much of our total effort is expended in one way or another in anticipating and satisfying the needs of customers. The basic challenge is to provide continually improved, economic services which will hold our present customers and at the same time attract important new business. Complementing this must be vigorous sales and promotion activity.

Many aspects of our improved services in 1965 are discussed in this report—items such as new equipment, developments in competitive pricing and the continuing property improvements which make possible a faster, more dependable operation.

Traffic development has been a major concern of Great Northern since earliest days, when the railway was thrust across a virtually uninhabited territory and land settlement and the fostering of agriculture were essential to survival. Today's development concept is much more sophisticated, embracing many technologies and a close working relationship with other agencies who have a shared interest in the growth of the territory we serve.

Much of this specialized activity is carried out by two divisions of the Traffic Department—one in the field of industrial and agricultural development and the other in mineral research and development. Additional contributions are being made by the relatively new Division of Economic Research, in the Executive Department.

## INDUSTRIAL EXPANSION

Some of the fruits of this development work are seen in the 112 new industries which were located on Great Northern trackage during 1965, bringing the five year total to 552.

Several new and expanded industries are represented pictorially in our Annual Report. A partial listing of other interesting projects underway or completed would include: the $6.3 million hardboard plant of Superior Fibre Products Co. at Superior, Wisconsin; Plum Creek Lumber Company's plywood plant at Columbia Falls, Montana, with a monthly capacity of 5 million board feet; the particleboard plant of Brooks-Willamette Corp. at Bend, Oregon, with an annual capacity of 35 million square feet.

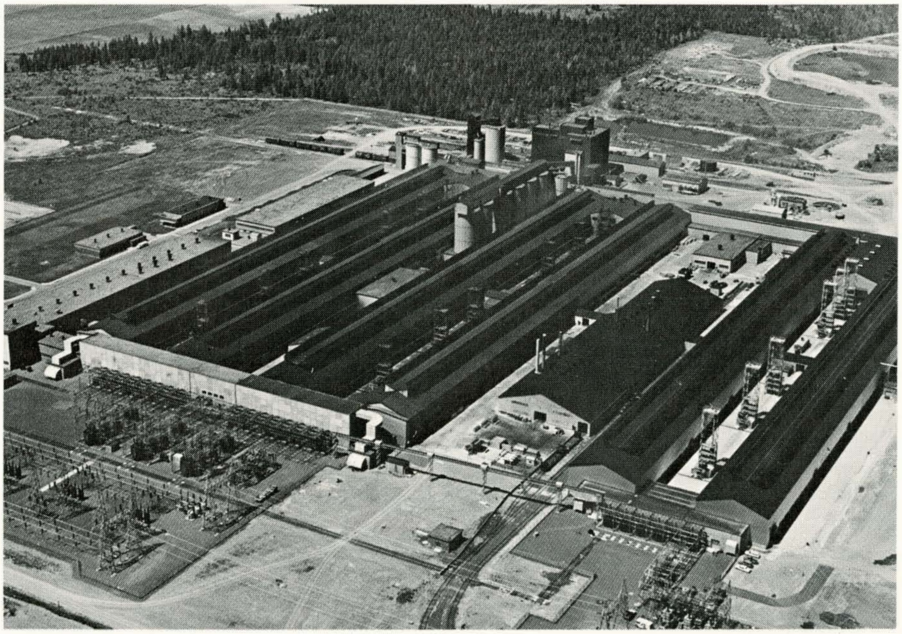
Also the Anaconda Company's expanded copper production facilities at the mines at Butte and the refinery at Great Falls, Montana; Brown and Kelly Produce Company's $600,000 french-fry potato processing plant and Yoshino-Western, Inc.'s $500,000 vegetable dehydration plant, both at Quincy, Washington; and United Retail Merchant's $500,000 frozen food warehouse, an expansion of their distribution center at Spokane, Washington.

Warehouses, fertilizer plants and storage facilities were the three principal categories in the 1965 listing of new industries, reflecting the basic agricultural economy of our territory.

## GOVERNMENT PROJECTS

New defense installations in Great Northern territory generated substantial traffic during construction phases in 1965. Foremost was the Minuteman Missile Complex which neared completion at Grand Forks, North Dakota. Great Northern has handled a total of 23,402 carloads of construction materials since this project began. Another 1,894 carloads were credited at year's end to expansion in progress on the Minuteman Complex completed earlier in the Great Falls, Montana area.

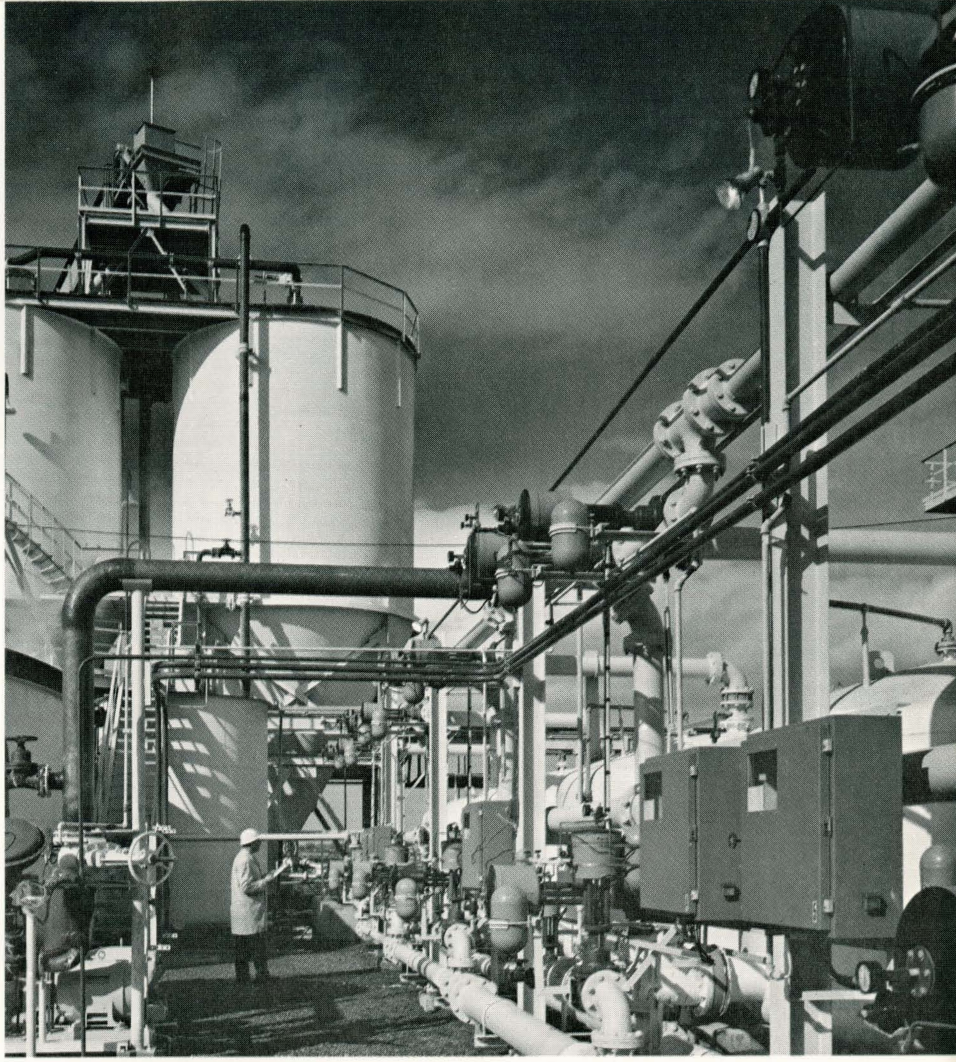
The prospect of new agricultural production to meet increasing world needs was brightened by Congressional approval of the Garrison



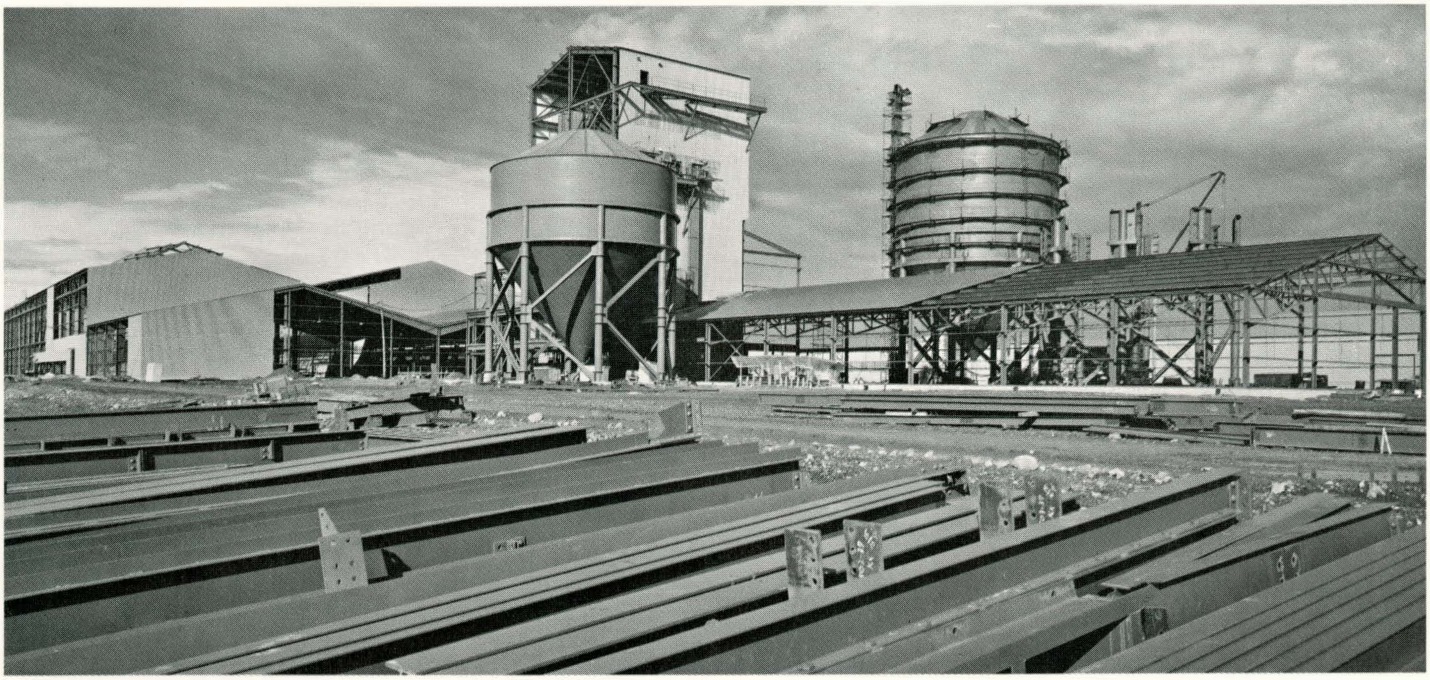
Annual capacity was increased to 200 million pounds with completion in 1965 of a third potline (two buildings to the right) at Anaconda Aluminum's huge plant at Columbia Falls, Montana. Plans were announced for a fourth potline by 1969.

Diversion Project. A bill signed by President Johnson on August 5, 1965 provides for the eventual irrigation of 250,000 acres of central and eastern North Dakota farmland, much of it tributary to Great Northern lines. The project, which can be expanded to one million acres, also will make water available for municipal, industrial, recreational and wildlife facilities. An initial appropriation will be sought in 1966.

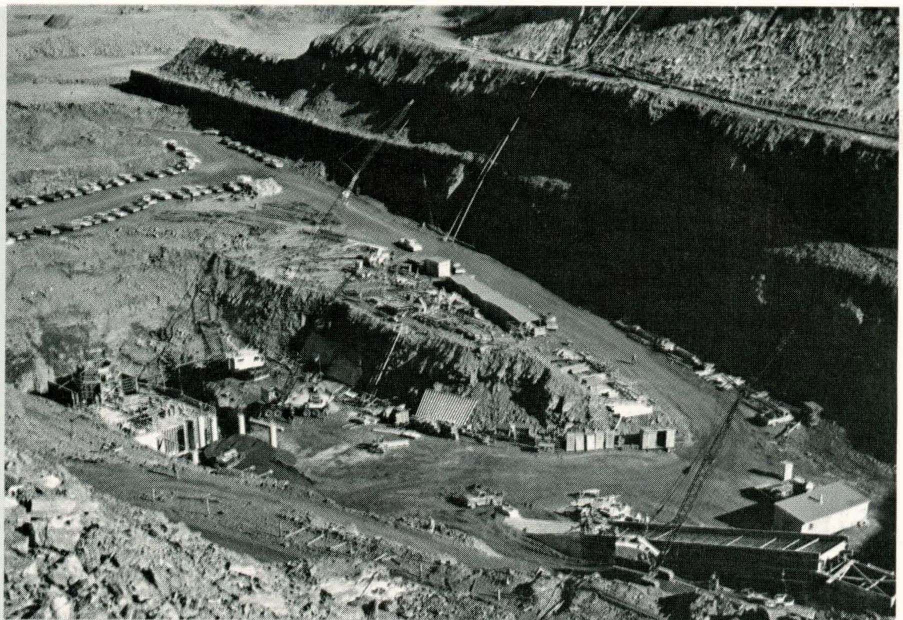
The beginning of construction on giant Libby Dam in northwestern Montana is noted elsewhere in this report. Another substantial project in this same category is Wells Dam, situated between Rocky Reach and Chief Joseph Dams on the Columbia River above Wenatchee, Washington. It is an undertaking of the Douglas County Public Utility District. Progress on the $50.9 million construction contract was generally on schedule in 1965, with the dam scheduled to be in operation in 1967, producing 560,000 KW of power.

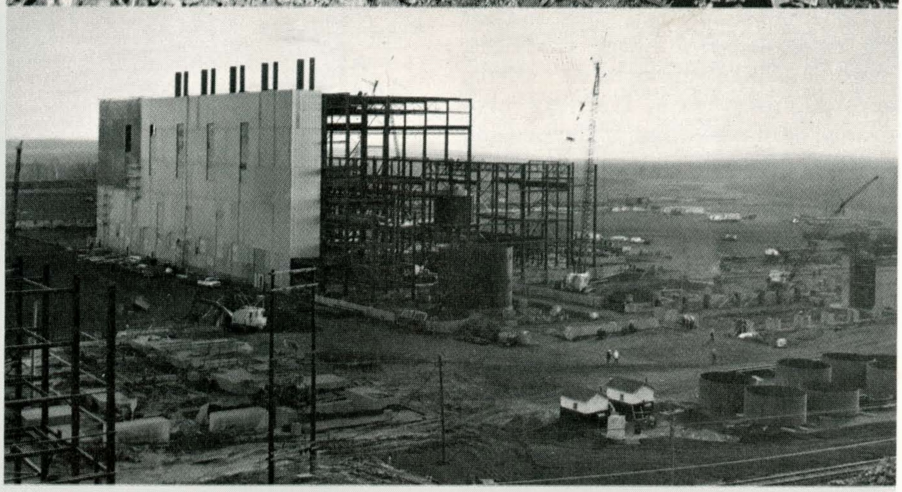


This new $7 million plant for the production of chlorine and caustic soda was completed at Bellingham, Washington, where it is part of the big wood products complex operated by the Puget Sound Division of Georgia-Pacific Corporation.



Construction of the huge Intalco aluminum reduction plant near Ferndale, Washington progressed rapidly in 1965 and plans were disclosed for more than doubling the original planned capacity, increasing the total cost to more than $100 million.





The great Mesabi iron range of northeastern Minnesota—slowly stagnating for years as its reserves of high grade ore dwindled, foreign competition increased and blast furnace operators demanded better material—has become one of the bright spots on our economic horizon.

It began in November, 1964 when Minnesota voters passed an amendment to their state constitution, guaranteeing taconite processors equality in taxation with other manufacturing enterprises. Taconite, a flint-like rock high enough in iron content to be commercially valuable as an ore, is found in almost inexhaustible quantities on the Mesabi.

This touched off what has been termed the biggest building program in the 101-year history of the steel industry, with $1 billion worth of taconite processing construction on the books. Two large plants announced almost immediately will be served by Great Northern Railway. Pictured here under construction are, above, the pit and primary crusher of the National Steel Pellet plant near Keewatin and, below, the concentrator building of the Butler Taconite plant near Nashwauk. Both will be operated by the Hanna Mining Company.

Shipments from these plants will begin early in 1967. The Nashwauk plant will have an annual capacity of 2 million tons of pellets, primarily for Inland Steel Corporation and Wheeling Steel Corporation. The Keewatin plant will be capable of producing 2.4 million tons and will provide pellets for National Steel Corporation.

The significance of this development to Great Northern is in the assurance of continuing iron ore movements in spite of the inevitable downward trend of natural iron ore production as richer deposits are exhausted and remaining ores become less salable. The pellets are greatly preferred as blast furnace feed.

Both of the new plants will process magnetite, using magnetic separation methods. Meanwhile, experiments are continuing to develop more economical methods of separating the iron material from non-magnetic taconites present in vast deposits in the western part of the Mesabi Range served by Great Northern.

To serve the Nashwauk and Keewatin plants, Great Northern is constructing seven miles of new spur tracks, while at Allouez, Wisconsin a major project is underway to provide a pellet storage facility.

Plans also are being developed for operation of daily unit trains from the plants to Allouez. The trains will be unloaded immediately there, with the pellets being transferred to boats or placed in storage. In contrast to present ore operations, which are geared to the Great Lakes navigation season, the taconite plants will be in production on a year-around basis.

Meanwhile, business activity has surged upward and other new industry is being attracted as the formerly depressed area of northeastern Minnesota rides a taconite boom.

# PERSONNEL

Prior to September 1, 1965, all Great Northern employee-related activities, including labor relations, were grouped in one department under the direction of Clyde A. Pearson, vice president-personnel.

Effective with Mr. Pearson's retirement that date a Labor Relations Department was established and made responsible for negotiations and other relationships with the 27 organizations representing GN employees covered by union contracts. Heading this department as vice president-labor relations is Thomas C. DeButts, who was elected to succeed Mr. Pearson.

Other personnel activities, including supervision of hiring practices, maintenance of employment records, safety supervision, training programs, administration of the pension system, medical work and employee communications have been transferred to a reorganized Personnel Department headed by Harold H. Holmquist, newly-appointed executive assistant-personnel.

The number of Great Northern employees declined slightly during the year to 16,655. Productivity of the working force in terms of traffic units produced per dollar of labor cost improved. As indicated in the table below, wage costs have risen much more rapidly than productivity over the past 25 years, with a smaller number of employees being paid much higher wages. To keep wage costs in line with revenues, it has been essential to mechanize many tasks formerly done by hand.

Great Northern's continuing program for greater safety both on and off the job was pushed vigorously during the year, and these efforts were rewarded with an 11% reduction in on the job accidents reportable to the Interstate Commerce Commission. The ratio of such casualties dropped to 8.5 per million man hours worked.

## LABOR RELATIONS

The year 1965 was relatively quiet in the labor field, with no major wage cases pending and with the industry operating under the Arbitration Award of 1964, which established methods for reducing the size of crews in freight train and yard service. This issue had been in dispute for years. An agreement negotiated with the non-operating employees in 1964 provided higher wage rates effective January 1, 1965. A further increase became effective January 1, 1966 and will add approximately $2.3 million to wage costs in 1966. The wages of operating employees were also increased in 1965 and are open for negotiation in 1966.

A national agreement covering stabilization of employment was negotiated in February 1965. The agreement covers five non-operating unions—the clerks, maintenance of way employees, signalmen, telegraphers and dining car employees. Protective conditions were established for employees who were in service on October 1, 1964 and meet certain other requirements. The agreement also contains important provisions covering technological and operational changes, including those resulting from mergers.

During the year, important agreements were reached with the Brotherhood of Locomotive Engineers and the Brotherhood of Railroad Trainmen by Great Northern and the other railroads involved in the Great Northern Pacific and Burlington Lines merger. These agreements, with two major operating unions, contain provisions which will facilitate operation of the new company on a unified basis soon after merger. They also provide generous protection for employees who might be adversely affected, and will do much to eliminate cause for concern on the part of employees. An effort is being made to work out implementing agreements with any other union organization which may desire them.

**TREND OF LABOR COSTS AND PRODUCTIVITY**

| | 1940 | 1950 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
|---|---|---|---|---|---|---|---|---|
| Average Wages Per Hour Worked* | .79 | 1.71 | 2.88 | 2.96 | 3.04 | 3.09 | 3.18 | 3.37 |
| Average Fringe Benefits Per Hour Worked | .05 | .17 | .56 | .62 | .66 | .67 | .70 | .81 |
| Total Labor Cost Per Hour Worked | .84 | 1.88 | 3.44 | 3.58 | 3.70 | 3.76 | 3.88 | 4.18 |
| Productivity (Traffic Units Per Dollar of Labor Costs) | 247 | 147 | 119 | 118 | 126 | 133 | 132 | 135 |

*Excludes pay for vacation, sick leave and holidays.

Fringe benefits include: retirement and pensions; unemployment insurance; health, welfare and group insurance premiums; vacation, sick leave and holidays; and meals and lodging. The cost of these benefits to Great Northern in 1940 was $2,696,719. Twenty-six years later, in 1965, the cost had swollen to $27,031,165.

During this same period the average wages per hour worked increased 327%, while the average fringe benefits per hour worked increased 1520%. In terms of total compensation per hour worked there was an increase of 398% in the two decades.

# FINANCIAL AND CORPORATE

On the last record date in 1965, Great Northern was owned by 45,014 stockholders, an increase of 649 during the year. This includes a considerable number of employees who have been buying stock on the open market through the Monthly Investment Plan of the New York Stock Exchange with commissions paid by the railway.

## FUNDED DEBT

Funded debt at the end of 1965 was $248,150,000. Mortgage bonds outstanding remained the same, but three new equipment trusts totaling $19,380,000 were issued during the year to finance 80% of the cost of new equipment. The new issues exceeded the principal paid off on existing trusts and accordingly the amount of debt outstanding increased during 1965 by $10.5 million. During 1966, $8.5 million of equipment trust obligations will mature.

| As of December 31 | General Mortgage Bonds (Millions) | Equipment Obligations (Millions) | Total Funded Debt (Millions) |
|---|---|---|---|
| 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 |
| 1965 | 178.7 | 69.5 | 248.2 |

In general, Great Northern has not engaged in leasing of equipment, finding it more economical to purchase. However, some freight equipment has been leased under special circumstances. Included in such arrangements with outside agencies are 1,250 secondhand box cars leased in previous years and 150 secondhand hopper cars leased during 1965. On the secondhand equipment, the obligation for lease payments runs for up to 8 years. In 1965 these lease payments amounted to $1,570,000.

Depreciation charges, included in maintenance accounts as an item of expense but not requiring payment of actual cash, amounted to $17.0 million in 1965. This source of funds was therefore more than sufficient to make the annual payments of principal on present equipment trusts and the 20% down payment made on new equipment.

Pausing briefly between runs at Hillyard Yard in Spokane, this big 2500 HP freight diesel gets fuel, water, sand and a quick scrub-down. Locomotives of this type averaged better than 13,000 miles of service monthly in 1965.

## 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. However, depreciation with no offsetting income tax benefits must still be charged on the company's books.

On the other hand, 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 guidelines which permit use of shorter lives in calculating depreciation for tax purposes than have been authorized by the Commission.

The net effect in 1965 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. This is the same amount as in 1964.

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 actually incurred in the current year regardless of the fact that a tax benefit derived from depreciation allowances greater than book depreciation may be temporary.

We expect to continue to use the accelerated depreciation methods for tax purposes when beneficial, as authorized by Congress in 1954, and also will use the guidelines permitted in 1962 in estimating the life of property for tax purposes. The changes in tax regulations and in the law were intended to encourage acquisition of new equipment and they have been effective in doing so with a large purchase program carried out in 1965 and an even larger program planned for 1966. The effect of this tax accounting is to reduce current income taxes and to increase net income as shown in the following table.

Rapid technological advances and the gradual expansion of computerization as a service to all departments of the railway have kept Great Northern's Data Processing Center in St. Paul in a constant ferment of change and progress.

| Year | Change in Net Income Due to Amortization of Defense Facilities: Amount (Millions) | Per Share | Increase in Net Income Due to Accelerated Depreciation and Guideline Lives: Amount (Millions) | Per Share | Total Increase in Net Income: Amount (Millions) | Per Share |
|---|---|---|---|---|---|---|
| 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 | 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 | 6.8-I | 1.11-I | 5.6-I | 0.91-I |
| 1966 (est.) | 1.2-D | 0.20-D | 2.8-I | 0.46-I | 1.6-I | 0.26-I |

## AFFILIATES AND SUBSIDIARIES

In 1965 Great Northern received $6.2 million in dividends from the Chicago, Burlington & Quincy Railroad Company, the same as in recent years. All but 2.8% of the outstanding Burlington stock is owned in equal amounts by Great Northern and Northern Pacific. Burlington's net income of $16.7 million was lower than the $20.4 million of 1964 primarily because of heavy flood damage which occurred in April and May in the Mississippi River valley and a series of cloudbursts in Missouri and Colorado later in the year.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, had a good year and earnings increased from $1.9 million to $2.6 million. Strong industrial growth and a good grain movement in SP&S territory contributed to the higher net income. Great Northern received $1.0 million in mortgage bond interest during the year and in addition the SP&S reacquired $1.5 million principal amount of mortgage bonds from each parent company.

Western Fruit Express, a wholly owned subsidiary of Great Northern, owns and operates a fleet of 5,923 refrigerator cars as part of a pool which also includes Burlington Refrigerator Express and Fruit Growers Express Company. Its net income was off in 1965 as expenses increased more than revenues. Welcome relief from this cost-price squeeze came January 1, 1966 when the mileage rates paid by railroads for the use of refrigerator cars was increased. Western Fruit Express had net income of $442,000 in 1965, and a dividend of $204,000 was paid to Great Northern during the year.

Portal Pipe Line Company, 43¾% owned by Great Northern, had a very substantial increase in both gross revenue and net income because of increased movement of crude oil through the line from eastern Montana and western North Dakota into Minnesota. An extension was built during 1965 into the Flat Lake field in northeastern Montana. Although exploration work was not particularly active in Portal's service area, a number of new producing wells were drilled and connected to the Portal system. Net income for 1965 was $1,406,000 compared to $906,000 in 1964. An initial dividend of 5% was declared and Great Northern received $43,750. The pipe line system handled 10.0 million barrels of crude oil during the year, an increase of 16% compared to 1964.

## LEGISLATION

President Johnson has indicated to Congress that he would like to see a more efficient system of transportation and has urged that "we must revise the traditional Government programs of regulation and operating subsidies to place greater reliance on the forces of free competition." Included in his program are proposals for taxes on commercial users of transportation facilities provided by the public. Congress has not yet acted on the several proposals, but they are expected to receive active consideration in the current session.

The incentive per diem bill, which would broaden the power of the Interstate Commerce Commission over rental charges for the use of freight cars, has been discussed in several past issues of the Annual Report. Enactment of the pending bill, S. 1098, which has been passed by the Senate and has been favorably reported by the House Committee on Interstate and Foreign Commerce, would make possible establishment of per diem rates providing an incentive for greater car ownership.

A more even distribution of the national fleet would help alleviate the recurring box car shortages which have plagued Great Northern and its shippers. It would be helpful if shareholders would write to their representatives in Congress urging prompt action on S. 1098.

In the field of labor relations, the excess crew law in the State of Oregon was repealed. As a result the consist of freight crews in that state will be based on need, effective January 1, 1967.

## LITIGATION

Another subject reported here the past several years is litigation involving two divisions cases. The Transcontinental Case is the more important and concerns the apportionment of through freight revenues among the eastern, midwestern and transcontinental railroads. The Interstate Commerce Commission decided this case adversely to the Great Northern and other transcontinental lines, but early in 1965 a United States District Court set aside the Commission's order. This was followed by an appeal of the eastern and midwestern railroads and the Commission to the United States Supreme Court.

Late in 1965 a compromise was worked out between the transcontinental and eastern lines under which new divisions were made effective September 1, 1965. Substantial revenues which had been collected and held in reserve have been released by order of the Interstate Commerce Commission. Agreement also was reached with some of the midwestern lines with respect to their divisions on transcontinental traffic, but that phase of the case is not yet settled.

The second divisions case concerns revenues on freight handled by eastern and midwestern roads. Great Northern is involved only on its traffic east of Montana. This case has been pending in the Interstate Commerce Commission, but a compromise settlement is anticipated as this is written.

Last year mention was made of litigation in progress concerning the per diem rate, the daily charge for the use by one railroad of cars belonging to another. In December 1965 an examiner of the Interstate Commerce Commission recommended that the Commission find certain per diem rates which have been applied by the railroads were in excess of reasonable compensation, and proposed that the Commission prescribe lower charges.

Great Northern, together with a number of other railroads, believes that the examiner's recommendations as to per diem rates, and also as to certain principles to be used in determining per diem rates for the future, are not supported by the evidence. Exceptions to the report will be filed with the Commission, which subsequently will review the examiner's recommendations.

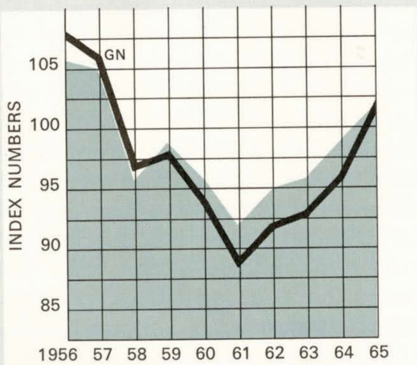
*GREAT NORTHERN RAILWAY COMPANY*

## Change in Working Capital

*January 1 to December 31, 1965*

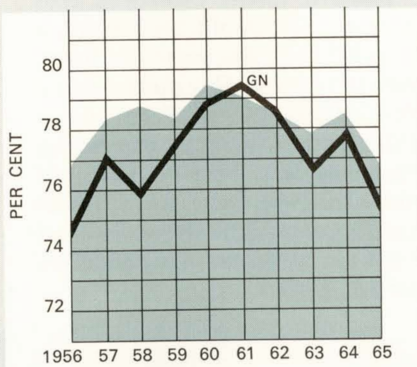
| | | |
|---|---|---|
| BALANCE AT BEGINNING OF YEAR | | $ 60,824,019 |
| SOURCES OF WORKING CAPITAL: | | |
| Net income | $36,909,825 | |
| Depreciation and other non-cash income items | 18,959,074 | |
| Sale of property, investments, and other assets | 3,963,674 | |
| Proceeds from equipment financing | 19,380,000 | 79,212,573 |
| | | $140,036,592 |
| APPLICATIONS OF WORKING CAPITAL: | | |
| Additions and betterments to property and equipment | $35,733,618 | |
| Reduction of long-term debt | 8,841,624 | |
| Dividends accrued | 18,409,694 | |
| Other—net | 1,109,564 | 64,094,500 |
| BALANCE AT END OF YEAR | | $ 75,942,092 |
| NET INCREASE IN WORKING CAPITAL | | $ 15,118,073 |

OPERATING REVENUES



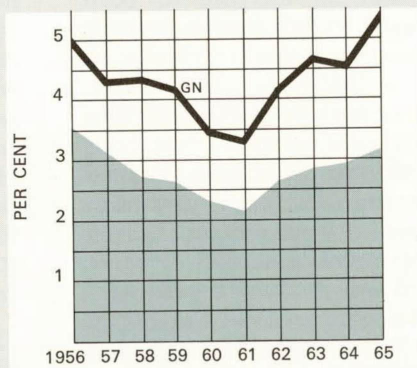

Both Great Northern and the railroad industry shared in the growth of the economy in 1965. Many new industries were added and old ones expanded to add to the stream of freight traffic.

OPERATING EXPENSE RATIO

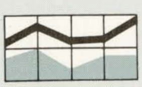



Continuing improvement of facilities and the favorable physical characteristics of our main lines contributed to the best ratio of operating expenses to revenue in recent years on the GN.

TIMES FIXED CHARGES EARNED




With an improved net income and only a modest increase in equipment debt, fixed charge coverage after Federal income taxes at 5.4 times was better considerably than the Class 1 average.



GREAT NORTHERN RAILWAY

ALL CLASS 1 R.R. U.S.

*1965 Class 1 Railroad statistics are preliminary figures.*

1957-1959=100

*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.*

*Year ended December 31, 1965 with comparative figures for 1964*

## Statement of Income

| | 1965 | 1964 |
|---|---|---|
| OPERATING REVENUES: | | |
| Freight | $236,874,590 | $222,238,732 |
| Passenger, mail and express | 20,604,101 | 20,181,461 |
| Other | 8,150,913 | 7,967,678 |
| Total operating revenues | 265,629,604 | 250,387,871 |
| OPERATING EXPENSES: | | |
| Transportation | 98,586,515 | 94,358,378 |
| Maintenance of way and structures | 36,244,249 | 39,192,019 |
| Maintenance of equipment | 44,649,786 | 41,370,696 |
| Traffic, general and other | 21,201,092 | 20,034,892 |
| Total operating expenses | 200,681,642 | 194,955,985 |
| NET REVENUE FROM RAILWAY OPERATIONS | 64,947,962 | 55,431,886 |
| TAXES AND RENTS: | | |
| Federal income tax (notes 1 and 2) | 5,787,578 | 4,206,142 |
| Payroll taxes | 10,576,680 | 10,104,524 |
| Property and other taxes | 12,338,117 | 11,504,751 |
| Equipment and joint facility rents—net | 3,205,326 | 4,149,793 |
| Total taxes and rents | 31,907,701 | 29,965,210 |
| NET RAILWAY OPERATING INCOME | 33,040,261 | 25,466,676 |
| OTHER INCOME: | | |
| Dividends | 6,851,532 | 7,078,529 |
| Interest | 4,521,416 | 3,184,960 |
| Rent and miscellaneous income—net | 956,716 | 1,276,919 |
| Total other income | 12,329,664 | 11,540,408 |
| | 45,369,925 | 37,007,084 |
| INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT | 8,460,100 | 8,140,755 |
| NET INCOME | $ 36,909,825 | $ 28,866,329 |
| PER SHARE (net income per share in each year was increased 91¢ by reduction in income taxes, as described in note 1) | $ 6.01 | $ 4.71 |

*Net income was increased (decreased) by extraordinary items as follows, after Federal income taxes, where applicable:*

| | 1965 | 1964 |
|---|---|---|
| Tax refund and interest | 38¢ | — |
| Montana flood damage | — | (29¢) |
| Provision for possible retroactive payments to eastern lines in Transcontinental Divisions case | — | (15¢) |
| Loss on property retirements deducted from retained income | — | 19¢ |
| Net increase (decrease) | 38¢ | (25¢) |
| Per share before extraordinary items | $5.63 | $4.96 |

## Statement of Retained Income

| | 1965 | 1964 |
|---|---|---|
| RETAINED INCOME AT BEGINNING OF YEAR | $393,560,551 | $384,203,274 |
| NET INCOME FOR YEAR | 36,909,825 | 28,866,329 |
| | 430,470,376 | 413,069,603 |
| DEDUCT: | | |
| Dividends—$3.00 a share in each year | 18,409,694 | 18,348,813 |
| Miscellaneous charges (credits) less related income taxes: | | |
| Restoration of provisions for possible retroactive payments (1963-64) to eastern lines in Transcontinental Divisions case as prescribed by Interstate Commerce Commission (note 3) | (1,372,000) | — |
| Loss on property retirements as authorized by I.C.C. | — | 1,160,239 |
| Reduction in amounts provided for unfunded past service pension costs by charges against retained income in prior years | (672,000) | — |
| | 16,365,694 | 19,509,052 |
| RETAINED INCOME AT END OF YEAR (NOTE 1) | $414,104,682 | $393,560,551 |

*See accompanying notes to financial statements.*

# Balance

*December 31, 1965 with*

| ASSETS | 1965 | 1964 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and temporary cash investments | $ 89,654,886 | $ 77,107,781 |
| Accounts receivable | 22,463,633 | 17,447,884 |
| Material and supplies, at cost | 17,419,538 | 17,133,763 |
| Other current assets | 704,870 | 565,551 |
| Total current assets | 130,242,927 | 112,254,979 |
| CAPITAL AND OTHER SPECIAL FUNDS | 3,027,114 | 2,526,480 |
| INVESTMENTS, AT OR BELOW COST: | | |
| Affiliated companies (note 4) | 166,350,906 | 167,984,422 |
| Other companies | 5,768,763 | 4,906,923 |
| Total investments | 172,119,669 | 172,891,345 |
| PROPERTIES: | | |
| Road and roadway structures, etc. | 565,211,105 | 558,724,479 |
| Equipment | 374,760,709 | 356,075,604 |
| Total transportation property | 939,971,814 | 914,800,083 |
| Allowance for depreciation and amortization | 260,907,645 | 251,789,785 |
| Net transportation property | 679,064,169 | 663,010,298 |
| Non-operating property | 13,309,079 | 13,073,684 |
| Net properties | 692,373,248 | 676,083,982 |
| OTHER ASSETS AND DEFERRED CHARGES | 13,194,437 | 14,452,850 |
| TOTAL ASSETS | $1,010,957,395 | $978,209,636 |

*See accompanying notes to financial statements.*

## Sheet

*comparative figures for 1964*

| LIABILITIES AND SHAREHOLDERS' EQUITY | 1965 | 1964 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 12,654,796 | $ 12,498,664 |
| Accrued payroll and vacation pay | 11,033,557 | 12,093,613 |
| Accrued taxes | 20,406,655 | 16,485,047 |
| Dividends payable | 4,605,638 | 4,596,691 |
| Other current liabilities | 5,600,189 | 5,756,945 |
| Total current liabilities (excluding debt due within one year) | 54,300,835 | 51,430,960 |
| DEBT DUE WITHIN ONE YEAR | 8,549,624 | 8,557,624 |
| 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 | 3⅛% | 37,500,000 |
| 2000 | 3⅛% | 37,500,000 |
| 2010 | 2⅝% | 35,000,000 |

| | 1965 | 1964 |
|---|---|---|
| General mortgage bonds | 178,662,900 | 178,662,900 |
| Equipment and other obligations, 2⅝% to 5% | 60,937,624 | 50,391,248 |
| Total long-term debt | 239,600,524 | 229,054,148 |
| PROVISION FOR UNFUNDED PAST SERVICE PENSION COSTS | 11,300,000 | 12,700,000 |
| RESERVES AND OTHER LIABILITIES (NOTE 3) | 11,177,606 | 11,555,563 |
| Total liabilities | 324,928,589 | 313,298,295 |
| 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—69,000 shares (82,330 shares in 1964) (note 5) | 3,183,803 | 3,771,812 |
| Common stock outstanding—6,139,957 shares (6,126,627 shares in 1964) | 270,844,347 | 270,256,338 |
| Capital surplus (note 5) | 1,079,777 | 1,094,452 |
| Retained income (note 1), including $1,125,000 in each year appropriated for sinking funds | 414,104,682 | 393,560,551 |
| Total shareholders' equity | 686,028,806 | 664,911,341 |
| CONTINGENT LIABILITIES (NOTE 6) | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $1,010,957,395 | $978,209,636 |

# Notes to Financial Statements December 31, 1965

1. In the accompanying financial statements, Federal income taxes have been reduced and net income correspondingly increased by approximately $5,600,000 in 1965 and 1964 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, 1965, amounted to $57,200,000.

2. Federal income taxes in the statement of income have been reduced by $3,000,000 ($2,150,000 in 1964) as a result of the application of a tax investment credit and by $289,000 ($536,000 in 1964) as a result of the adjustment of prior years' provisions for income taxes. Also in 1965, the Company received a refund of income taxes paid for years prior to 1957 amounting to $1,702,000, plus interest of $981,000 (less related income taxes of $353,000).

3. Pursuant to ruling by the Interstate Commerce Commission, provisions for possible retroactive payments to eastern railroads for revised apportionments of transcontinental freight revenue (less related income taxes) charged to income in 1963 ($424,000) and 1964 ($948,000) were restored to retained income in 1965, since no payments are required for the period prior to September 1, 1965, under terms of agreements with eastern railroads. Also, pursuant to authorization by the Interstate Commerce Commission in 1964, loss on property retirements (less related income taxes) of $1,160,239 was charged to retained income in the financial statements for 1964. Previously reported income figures for 1964, included for comparative purposes, have not been retroactively adjusted for either the 1965 retained income credit applicable to 1964 ($948,000) or for the 1964 retained income charge ($1,160,239), the net effect of which would not significantly change net income for 1964 as reported.

The accompanying balance sheet at December 31, 1965, includes a reserve of $3,790,000 (provided during the years 1963-1965) for possible retroactive adjustments with midwestern roads.

4. 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, 1965 (as shown by their unaudited financial statements) amounted to $26,985,622. The Company's equity in net income of unconsolidated subsidiaries amounted to $1,375,454 in 1965 ($1,356,070 in 1964) of which $204,000 in 1965 ($510,000 in 1964) was received as dividend income.

5. Treasury stock includes 41,296 shares at December 31, 1965 (55,166 shares at December 31, 1964) reserved for officer and key employe options at prices ranging from $35 to $58 a share. During the year ended December 31, 1965, the Company reissued 13,330 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, $14,675.

6. At December 31, 1965 the Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately $11,000,000. 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 approximately $90,000,000.

The Company and another company with which it shares majority ownership of the stock of Portal Pipe Line Company are parties to a throughput agreement with the pipe line company. Under this agreement these 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, 1965 amounted to $12,325,000 and is payable in quarterly instalments of $187,875 through June 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, 1965, 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 acconting 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, such financial statements present fairly the financial position of Great Northern Railway Company at December 31, 1965 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 16, 1966*

Peat, Marwick, Mitchell & Co.

## Directors

ROYAL D. ALWORTH, JR.
*President*
*Oneida Realty Company, Duluth*

J. STEWART BAKER
*Former President and Chairman of the Executive Committee*
*The Chase Manhattan Bank*
*New York*

JOHN M. BUDD
*President*
*Great Northern Railway Company, St. Paul*

THOMAS L. DANIELS
*Director Emeritus*
*Archer Daniels Midland Company, Minneapolis*

F. PEAVEY HEFFELFINGER
*Chairman of the Executive Committee*
*Peavey Company*
*Minneapolis*

GRANT KEEHN
*President*
*The Equitable Life Assurance Society of the United States*
*New York*

J. HOWARD LAERI
*Vice Chairman*
*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
*Chairman of the Board*
*Weyerhaeuser Company*
*St. Paul*

ROBERT B. WILSON
*President*
*Equity Management Company*
*Portland, Oregon*

## Officers

Principal officers of the Great Northern Railway are elected by the Board of Directors, representing the company's shareholders. Recent retirements and elections affecting three vice presidencies prompted the taking of this "family portrait" for our 1965 Report.

Left to right, seated, are: JOHN M. BUDD, President; ANTHONY KANE, Vice President and General Counsel; JOHN L. ROBSON, who became Vice President, Operating Department on February 1, 1965, succeeding Thomas A. Jerrow; C. E. FINLEY, Vice President, Traffic Department; and M. M. SCANLAN, Vice President, Traffic Department, succeeding Mr. Finley effective February 1, 1966.

Left to right, standing, are: ROBERT W. DOWNING, Vice President, Executive Department; CLARK A. ECKART, Vice President, Executive Department (Seattle); JOHN A. TAUER, Vice President and Comptroller; THOMAS C. DeBUTTS, Vice President, Labor Relations, who succeeded Clyde A. Pearson on September 1, 1965; and RICHARD M. O'KELLY, Secretary and Treasurer.

Great Northern
Railway Company
Saint Paul,
Minnesota