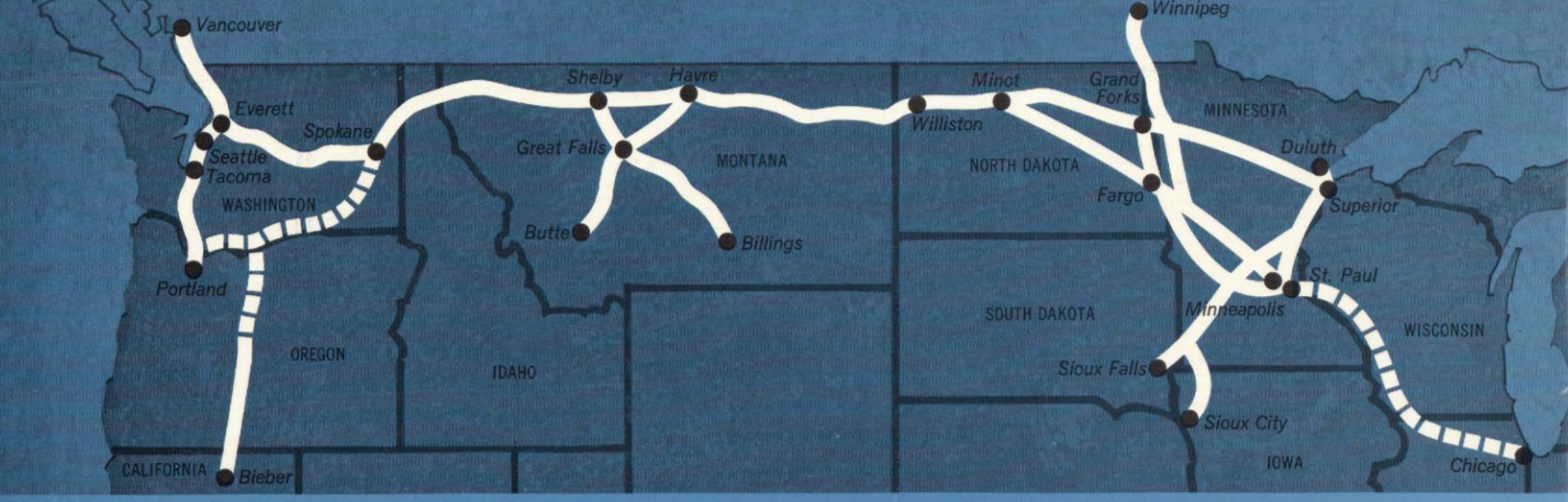
1966 ANNUAL REPORT



Our cover photo has that unbridled quality of an ode—exalting not only the obvious pleasures of angling in fast, clear water, but the dynamic spirit of "Great Northern country" and the railway which serves it.

An annual report, however, is concerned with more pragmatic affairs, and in this context we would direct attention to the four giant new diesel-electric locomotives which helped power us to a record year in freight revenues.

Finally, for anyone interested in luring a trout or just admiring soul-satisfying scenery, our cover locale is a few miles east of Spokane, Washington, where GN tracks skirt the Little Spokane River.

Great Northern Railway Company
78th Annual Report for year ended December 31, 1966

HIGHLIGHTS

	1966	1965	1964
Financial Data			
NET INCOME	$ 36,547,109	$ 36,909,825	$ 28,866,329
Per share	$5.94	$6.01	$4.71
DIVIDENDS PAID	$ 18,447,494	$ 18,400,747	$ 18,328,070
Per share	$3.00	$3.00	$3.00
SHAREHOLDERS	44,519	45,014	44,365
OPERATING REVENUES	$281,777,075	$265,629,604	$250,387,871
OPERATING EXPENSES	207,856,575	200,681,642	194,955,985
FEDERAL INCOME TAXES	12,723,000	5,787,578	4,206,142
AVAILABLE FOR FIXED CHARGES	45,427,618	45,371,888	37,008,272
FIXED CHARGES	$ 8,880,509	$ 8,462,063	$ 8,141,943
Times fixed charges earned	5.12	5.36	4.55
RETURN ON PROPERTY INVESTMENT	4.47%	4.72%	3.71%
CASH AND TEMPORARY INVESTMENTS DEC. 31	$ 78,283,969	$ 86,373,046	$ 73,815,134
WORKING CAPITAL — DEC. 31	64,779,839	75,942,092	60,824,019
FUNDED DEBT — DEC. 31	$250,318,524	$248,150,148	$237,611,772
Operating and Wage Statistics			
MILES OF ROAD OPERATED	8,274	8,264	8,261
REVENUE NET TON MILES (MILLIONS)	19,342	18,425	17,193
REVENUE PASSENGER MILES (MILLIONS)	436	424	423
RATIOS TO REVENUES			
Net income	13.0%	13.9%	11.5%
Transportation expenses	36.4%	37.1%	37.7%
Maintenance expenses	29.5%	30.5%	32.2%
All operating expenses	73.8%	75.5%	77.9%
EMPLOYEES	16,797	16,655	17,003
WAGES PAID	$125,888,148	$122,678,073	$117,860,466
EMPLOYMENT COSTS (Payroll plus benefits, payroll taxes, etc.)	$145,110,553	$139,733,920	$133,663,182

To Our Shareholders:

It is pleasing to bring you a report on one of the best years, in many respects, in Great Northern's history. The harvest along our lines was a good one and business generally responded to the exceptional vigor of the nation's economy.

Although a new peak was reached in operating revenues — $281.8 million — 1966 net income of $36.5 million, or $5.94 per share, was slightly below the record high of the previous year. The Federal income tax refund received in 1965 boosted net income that year to $36.9 million, or $6.01 per share, on revenues of $265.6 million. The refund of $2.3 million, including net interest, was equivalent to 38¢ per share.

Dividends were continued at the rate of $3.00 per share.

Operating expenses of $207.9 million in 1966 were $7 million above the previous year, due principally to higher wage rates but reflecting in part the increased cost of handling a heavier volume of traffic.

Taxes were up, too, by $9 million, including increases of $6.9 million in Federal income taxes and $1.4 million in payroll taxes.

Capital expenditures of $50.3 million in 1966 provided one of the most ambitious improvement programs undertaken by Great Northern in many years, with heavy emphasis on acquiring cars which will enable us to meet the growing and exacting needs of our freight customers. The railway plant was in excellent condition at year's end.

Operating conditions were generally favorable in 1966, although Great Northern shared the pinch of a severe national shortage of freight cars early in the year. This and trends in the movement of some of our principal commodities are discussed later under Report on Operations.

A precise analysis of the effect of the Vietnam war on Great Northern traffic is difficult. However, it would account for a substantial percentage of revenues received from the movement of government supplies in 1966, estimated at about $3.5 million as compared with $2.2 million in 1965. Less definable is an accelerated volume of raw materials supporting the manufacture of supplies needed for the war effort.

The rather substantial increase in revenues from the movement of passengers in 1966 is gratifying, but significant principally in demonstrating the effect on our patronage of a West Coast bus strike in May and June, and the widespread airline strike of July and August. Were it not that our passenger business normally is brisk during these months, the improvement in revenues would have been even more pronounced.

The year's greatest disappointment was the 6 to 5 decision of the Interstate Commerce Commission on April 27, denying the application which proposed the merger of the Great Northern, Northern Pacific, Burlington and SP&S into one railroad system.

However, it remained our conviction that the merger plan was sound and in the public interest, and after careful review of the decision, a petition for reconsideration was filed with the Interstate Commerce Commission on July 27.

It was obvious from both the majority report and the dissenters' opinions that acceptance by the applicants of conditions requested by the Milwaukee and North Western railroads was essential to reconsideration, and the petition stipulated that such conditions would be acceptable.

On January 4, 1967, the Interstate Commerce Commission announced that it would reopen the case for additional hearings beginning March 6 in Washington, D. C. The order limited the scope of the hearings to determining on a current basis the amount of savings which would result from the merger. Not only the Milwaukee and North Western conditions are involved, but also the effect of relevant financial, operational and other changes which have occurred since the close of hearings in July 1962.

It is impossible to predict the outcome of this renewed effort. Its importance cannot be underestimated, however. Encouraging as the gains of the past several years have been, the applicant companies and the railroad industry generally remain woefully low in rate of return on net investment. The result is that sufficient funds simply are not being generated from income to develop adequately our great latent capacity for service.

While merger offers the greatest immediate opportunity for enhancing efficiency and our competitive posture, no area of potential improvement has gone unexplored. In fact, the industry is pushing ahead vigorously on many fronts for upgrading service. The new computer technology is prominent in the plans.

Here at Great Northern a continuing major program has been launched designed to capitalize on opportunities to improve the long-term strength of the railway.

Projects already underway include improved marketing, cash management, terminal operations, and locomotive and car maintenance. Other projects are scheduled to start later this year.

This program has been launched with a keen awareness that the agricultural, industrial and commercial segments of the economy are looking to Great Northern and its transportation competitors to provide faster and more exacting service at lower cost to them. We want to be certain that our company takes advantage of every opportunity to be a transportation leader. Only in this way can capital be generated to maintain competitive customer service, provide an attractive return to shareholders and ensure stable jobs for all employees.

Two of our veteran directors retired during 1966, and we shall miss their faithfulness and wise counsel. J. Stewart Baker, former president and chairman of the executive committee of The Chase Manhattan Bank of New York, submitted his resignation early in the year after 22 years of service. We were saddened by his death on September 5.

Near the year's end our senior director and director of Whirlpool Corporation, Walter G. Seeger, ended a quarter century of outstanding service to the railway.

We are fortunate in having able successors to these men. John S. Dalrymple, Jr., manager of Dalrymple Farms of Casselton, North Dakota, has taken Mr. Baker's place, while Ronald M. Hubbs, president of the St. Paul Fire & Marine Insurance Company of St. Paul, has succeeded Mr. Seeger.

At this point, in early 1967, it appears that another good year for Great Northern is in prospect. With a 32% increase in acreage allotments for wheat and with adequate moisture reserves, favorable growing conditions should result in a substantially increased production of our No. 1 commodity, grain.

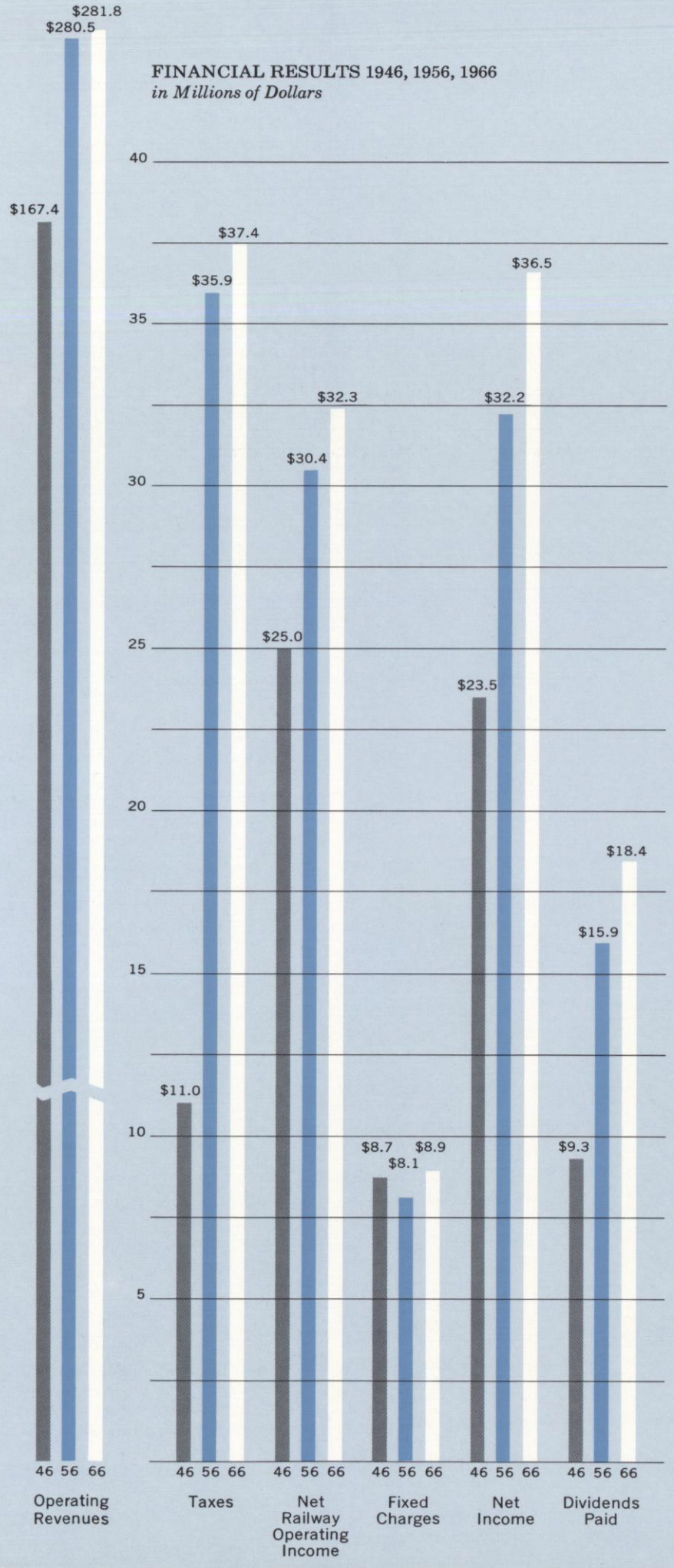
Certainly encouragement can be drawn from the amazing revitalization of the iron mining industry in Minnesota, and the burgeoning industrial expansion at the other end of our line, in the Pacific Northwest. You will be interested to read, later in this report, of Great Northern's direct participation in these developments.

Great Northern's fortunes, of course, are tied to the general condition of the economy, which in turn is affected by many diverse factors, including the war in Vietnam and housing starts here at home. The business outlook for 1967 is generally optimistic and there is reasonable hope that housing might come out of its slump during the year to bolster Great Northern's important lumber movement.

Many other subjects of interest and importance deserving of comment are covered in other areas of this 78th Annual Report. I would be remiss, however, in not concluding this letter with a salute to the 16,800 Great Northern officers and employees who are the real personality of this company. Their skills, their energy and their imagination are incalculable assets in this adventuresome new era of railroading.

March 1, 1967

PRESIDENT



FINANCIAL 1966

The year began with the economy in Great Northern territory at a high level. The movement of general commodities was good and grain was particularly strong. Throughout the first half of 1966 operating revenue and net income exceeded that of the corresponding period in 1965.

As the year progressed, widespread fears were expressed that the economy was becoming "overheated." Money for financing housing construction became extremely tight and housing starts turned downward sharply. With lumber movement off and grain shipments resuming a more normal pattern, the volume of traffic in the third and fourth quarters fell off to some extent although still exceeding the 5-year average.

Net Income

Net income of $36.5 million, equal to $5.94 per share, was earned in 1966. This is the second best year in the history of the company, exceeded only by 1965, when $36.9 million, or $6.01 per share, was earned.

The annual dividend of $3.00 per share was continued, with payments of 75¢ per share made each quarter.

Operating revenues of $281.8 million in 1966 were $16.1 million more than in 1965. Many of the expenses of operating the business, including wages and material costs, were higher, but the 6% increase in revenue was obtained with an increase of only 4% in operating expenses. As a result, the net from operating the railway before allowing for Federal income taxes was up $6.2 million or 16%. Unfortunately, taxes rose $8.6 million due principally to higher Federal income taxes and payroll taxes to finance Medicare and other benefits.

Fixed charges were earned 6.55 times before income taxes and 5.12 times after taxes. The coverage before taxes was the best on record.

Further strength in Great Northern's financial position is indicated by the growth in income from investments, primarily interest and dividends, which rose to $14.4 million, more than covering fixed charges.

The reported net income of Great Northern does not include its share of that part of the net income of affiliated companies which was not distributed as dividends. 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. During 1966, earnings of these companies not included in Great Northern accounts amounted to $8.8 million, or $1.42 per share of Great Northern stock.

Financial Position at End of Year

At the end of 1966, cash and temporary investments readily convertible into cash amounted to $78.3 million, a decrease of $8.1 million during the year.

Current assets were $122.4 million and current liabilities were $57.7 million. The level of net working capital, after deducting debt due in 1967, was $57.1 million. The decrease of $10.3 million was caused by the large program of property improvements. The level of working capital is satisfactory.

Funded debt (bonds and equipment trust certificates) publicly held at the end of 1966 was $250.3 million, an increase of $2.2 million during the year.

Report on Unification

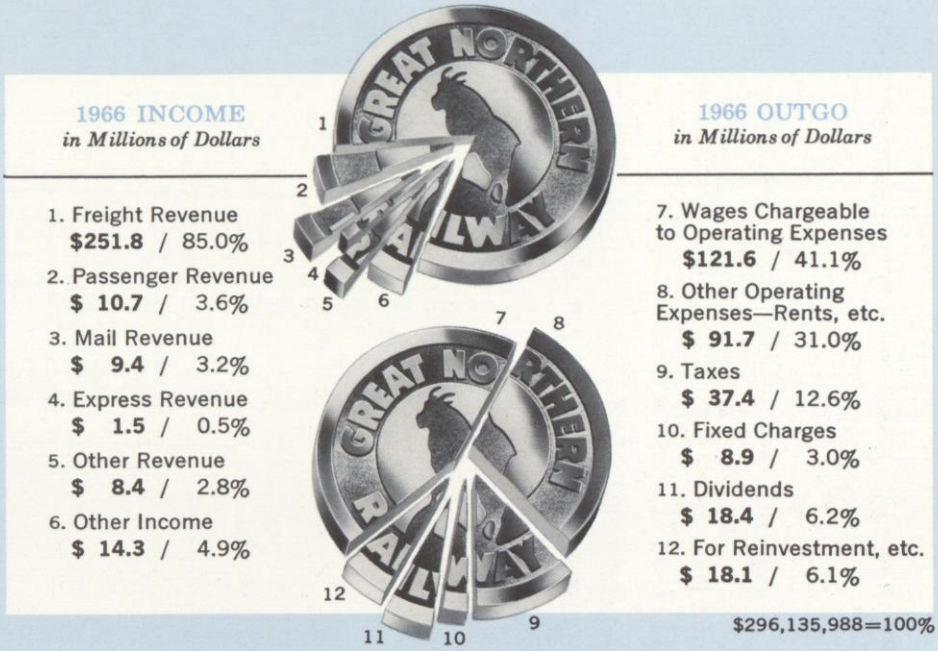
A disappointing development occurred in 1966 in the long proceeding before the Interstate Commerce Commission to unify Great Northern, Northern Pacific, Burlington and Spokane, Portland and Seattle into a single modern system. Although the examiner who heard the case had recommended approval in 1964, the Commission on April 27, 1966 rejected the plan by a 6 to 5 vote.

The Commission's decision indicated that a principal reason for rejection was the anticipated effect on the Milwaukee Road and the Chicago and North Western lines. Subsequent to the Commission's decision, further studies were made by the applicants and it was concluded that protective conditions which had been sought by these two lines could be granted in view of the major benefits which can only be obtained by merger. Accordingly, on July 27 a petition for reconsideration was filed with the Commission offering to accept the protective conditions.

Subsequently, the Milwaukee and North Western advised the Interstate Commerce Commission that they had reached agreement with the applicant lines and withdrew their opposition. In addition, some public bodies previously opposed to the merger have changed their positions to support it, and agreements have been reached with several labor organizations.

The new savings estimates indicate an annual increase in net before taxes of at least $39.7 million resulting from unification, as well as important improvements in the quality of service. The savings will be available for many purposes besides improving the return to shareholders, and include modernization of facilities and equipment and relief from the pressure of higher costs against the freight rate structure. All of these factors ultimately are of benefit to the owners of the company.

Early in January 1967 the Commission granted reconsideration and set March 6, 1967 as the date for a hearing to reopen the record to bring it up to date. A final decision is hoped for in 1967.



REPORT ON OPERATIONS

Operating revenue was the highest on record, exceeding the previous peak attained in 1956 and the World War II levels of 1941-1945. Operating conditions were normal except for a severe car shortage in the early part of the year. Carloadings were heavy throughout the country at that time, and a maldistribution of the nationwide fleet resulted in Great Northern having less than a reasonable number of cars.

Operating Revenue

Sources of operating revenues were:

	Operating Revenues (millions)		
	1966	*1965*	*Per Cent Change*
Freight	$251.8	$236.9	6.3-I
Passenger	10.7	10.1	5.9-I
Mail and Express	10.9	10.5	3.8-I
All other operating	8.4	8.2	2.4-I
Total	$281.8	$265.6	6.1-I

Freight Revenue

Each year freight revenue comprises about 89% of Great Northern's operating income. For the fourth successive year, revenue was up and all segments of the traffic pattern except lumber and iron ore contributed to the increase.

The movement of grain was particularly heavy, with crops grown in Great Northern territory in demand for both domestic use and export. At the beginning of 1966 there were 273 million bushels in storage awaiting movement from farms and country elevators.

Moisture reserves at the beginning of the planting season were excellent in the most important grain growing areas. The new crop came along well except for some anxious periods in July when a lengthy period of very hot weather prevailed. Yields were not up to expectation in some areas of North Dakota, but the crop generally was an excellent one, with the harvest in Montana approaching records set in 1965.

The amount of grain moved on Great Northern during 1966 was an all-time record of 321 million bushels—11% higher than the previous record established in 1956. The amount in storage at the beginning of 1967 was 245 million bushels. For 1967, acreage allotments have been increased 32% and it is anticipated that practically all of the additional land will be planted. Moisture reserves are adequate and if growing conditions are reasonably favorable a substantial increase in grain production is likely.

Lumber and plywood shipments were strong in the early part of 1966 but turned sharply downward at mid-year as housing construction declined under pressure from high interest rates and tight money for mortgage financing. Lumber revenue for the year was off 6%. While no great improvement is expected early in 1967, it is hoped that shipments may return to normal levels in the second half of the year.

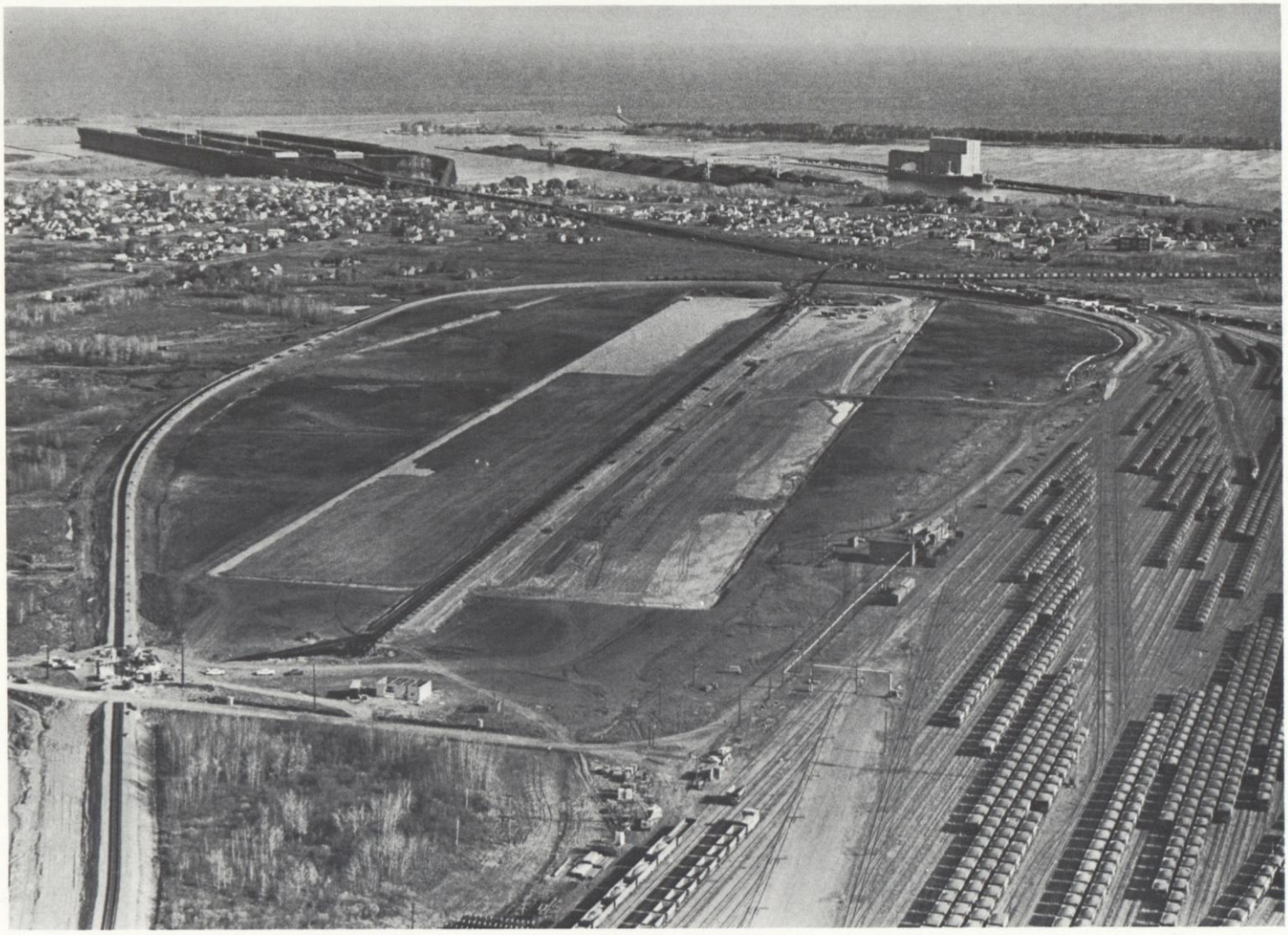
The iron ore shipping season got off to a good start early in April. Inventories were at a normal level at the furnaces, and the steel production rate was relatively high. Forecasts had indicated that about the same tonnage would be shipped as the previous year, but the long-term decline in demand for natural ore was again apparent and shipments fell to 14 million tons, off 8% from 1965.

A further moderate decline in movement of natural ore is anticipated for 1967. The opening of two new taconite pellet plants on the Mesabi Range will offset this, however, with the shipment of several million tons anticipated in their first year.

There were two particularly bright spots in freight traffic in 1966. Shipments of automobiles and trucks rose 30%, and smelter products were up 13% from 1965. The revenue increase in automobiles resulted from more vehicles being transported on multi-level auto rack cars and from longer hauls. The increase in smelter products

Commodity	*1966 Revenues (Millions)*	*1965 Revenues (Millions)*	*Percent Change 1966*
Grain and grain products	$69.6	$60.2	15.6-I
Lumber and products	39.6	42.1	5.9-D
Iron ore including dock charges	17.8	19.7	9.6-D
Wood pulp, paper and products	12.5	11.9	5.0-I
Smelter products	10.9	9.6	13.5-I
Automobiles and trucks	7.5	5.7	31.6-I
Alumina	6.6	6.0	10.0-I
Crude petroleum and petroleum products	6.3	6.0	5.0-I
Coal and coke	5.4	5.5	1.8-D
Iron and steel manufactured articles	5.2	5.1	2.0-I
Apples	4.5	4.3	4.7-I

Spacious enough for 32 football fields—and 2.2 million tons of taconite pellets—the unloading and stockpiling area at GN's huge new pellet-handling facility at Superior, Wisconsin is linked by conveyor belt to ore docks.



reflected both a greater production of copper from mines in Great Northern territory and shipments from new aluminum-producing facilities which started up in 1966. Freight rates remained at nearly the same level as in 1965. Despite the rising trend of most prices, railroad freight rates actually have declined in recent years. On Great Northern in 1966 the average ton of freight was hauled one mile for only 1.3¢, a reduction of 13% from 1958.

It is this reduction in cost to our customers which has made rail transportation increasingly attractive. The economical transportation of many commodities for longer distances also is opening new markets not previously available. Unfortunately, the pressure of ever higher costs, particularly from rising wage rates, makes the consideration of some rate increases inevitable.

Passenger Train Revenue

Continuing an upward trend of recent years, revenue received from passengers reached $10.7 million, an increase of 7% from 1965. This level has been exceeded only once since 1955, and that was in 1962 when the Seattle World's Fair attracted an unusual number of long-haul passengers.

Our 1966 revenue gained substantially from passengers who used rail service during a bus strike on the West Coast and the nationwide airline strike in July and August. The latter occurred when our summer vacation travel business was at a peak, and while many extra passengers were accommodated it was understandably difficult to provide satisfactory service to everyone seeking it.

The passenger business presents an enigma to Great Northern. Coach travel has been increasing more than enough to offset the decline in sleeping car patronage. Yet the resulting increase in revenues has been outstripped by rising costs, with the overall passenger operation remaining unprofitable. Labor accounts for a high percentage of the cost of providing passenger service, and there is no apparent way to make it productive enough to reverse the deficit trend. Great Northern's policy has been to maintain a prudent balance, continuing a quality service on trains of greatest potential, but with the exercise of every reasonable economy in the overall conduct of the passenger operation.

Mail and express, handled mostly on passenger trains, was moderately higher in 1966. The two services produced

$10.9 million, an increase of 3% over the previous year. While the higher mail revenue was pleasing, the general policy of the Post Office Department respecting rail service is not encouraging. This is of real concern to Great Northern since most of our principal passenger trains receive substantial support from mail traffic.

Operating Expenses

Railway operating expenses in 1966 were $207.9 million, up $7.2 million or 3.6% from 1965. Since the volume of freight traffic measured in revenue net ton miles increased 5% and revenues increased 6%, a noteworthy improvement in operating results was achieved. The operating ratio--the proportion of operating revenue taken by expenses—declined from 75.5% in 1965 to 73.8% in 1966. This is the best operating ratio in many years, and is comparable to those in the early 1950s.

Maintenance of way expenses were up slightly from $36.2 million in 1965 to $38.0 million in 1966, due primarily to higher wage rates. An increase in new rail and ballast applied was partly offset by a reduction in the number of cross ties renewed.

Maintenance of equipment expenses rose from $44.6 million to $45.2 million. Higher wage rates for maintenance employees and some additions to work forces in freight car repair work accounted for the increase. A shortage of freight cars earlier in the year, coupled with heavier traffic, made it imperative that we restore bad order cars to service as quickly as possible.

Maintenance of equipment charges would have been higher except for a reduction in depreciation expense. This item tends to increase each year as new and higher-priced rolling stock is added to the fleet, replacing older cars and locomotives acquired at much lower prices in the past. However, in 1966 the Interstate Commerce Commission asked for a routine review of the remaining service life and eventual salvage value of the fleet, and subsequently decided that a slightly lower depreciation rate should be used beginning in 1966. This resulted in a lower charge to maintenance of equipment of $947,000.

Taxes

Taxes accrued in 1966 were $37.4 million, an increase of $8.6 million. All three of the major categories of taxes increased, with Federal income taxes jumping from $5.8 million to $12.7 million. Part of the difference of $6.9 million results from $1.7 million received as a refund in 1965. Without this refund the increase from 1965 to 1966 would have been $5.2 million. This increase resulted from a change in the tax regulations on depreciation and from the higher net income before taxes.

Income taxes in 1966 were reduced $4.5 million by the 7% investment credit resulting from the large capital expenditure program carried out in recent years. Although new rolling stock is still badly needed, Congress, in an attempt to slow down the rapid rise in capital expenditures, has suspended the law allowing the credit. The suspension is effective from October 1966 to January 1968.

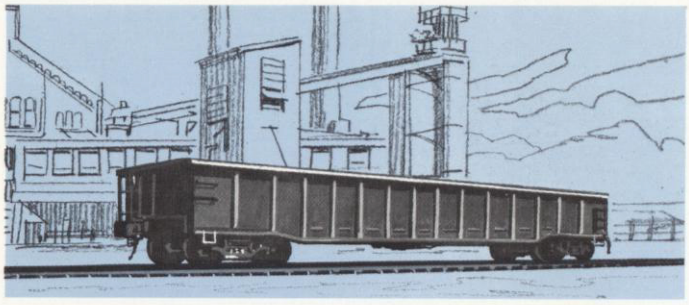
A large part of the new equipment in the 1967 program had been ordered prior to the suspension and hence is eligible for credit. Certain provisions in the law, however, reduce the amount of credit which can be taken, and it is expected that only about $1.2 million will be allowable in 1967.

Payroll taxes, another major tax category, were up in 1966. Rates, raised to finance Medicare and other benefits, reached a new high of 9.5% of wages paid, as compared to 8.5% in 1965.

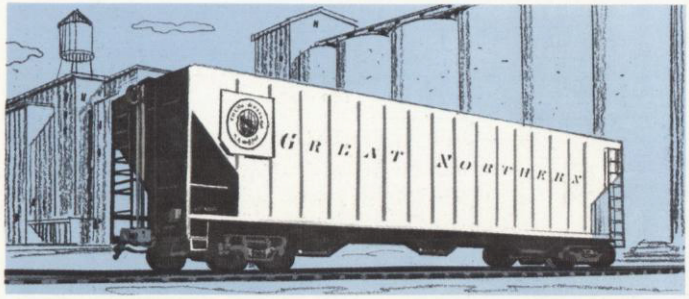
Prominent in the "profile" of the modern freight train are cars like those pictured here, acquired by Great Northern in 1966. Equipment design reflects commodities originating on our lines and special loading requirements of our customers.

BOX CAR: Now designed to handle a variety of high grade commodities, including lumber, canned goods, packaged products.

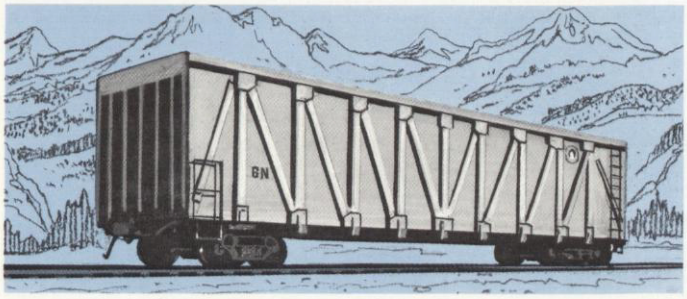
GONDOLA: A "work horse" car—for sand and gravel, steel and copper billets, scrap, lumber, coal, lime rock, sugar beets.



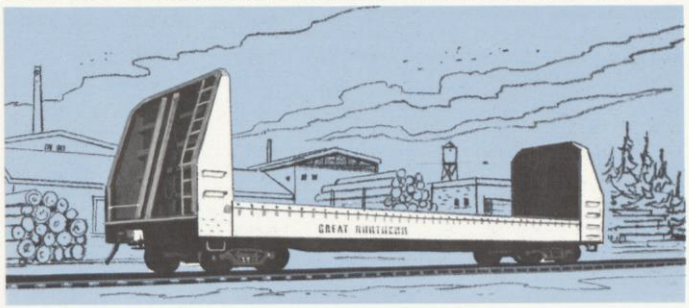
COVERED HOPPER: Largely in grain service, these jumbos also carry vermiculite, magnesite, coke, fertilizer, cement, salt.



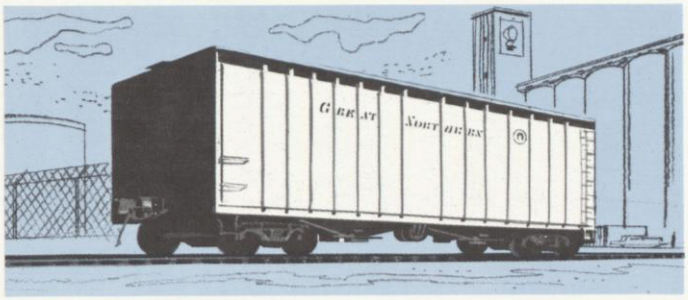
WOOD CHIP CAR: A single-commodity car with extra-high sides for hauling wood chips from mills to pulp and paper plants.



BULKHEAD FLAT CAR: Packaged lumber, aluminum ingots, plaster-board, poles are items loaded on these heavy-duty cars.



AIRSLIDE CAR: A covered hopper with air-activated unloading device for handling such bulk commodities as flour and sugar.



NEW DIESELS AND FREIGHT EQUIPMENT DELIVERED IN 1966 AND PLANNED FOR 1967

1966	1967	Type	Description
6		3000 HP diesel	Combination freight and passenger engines.
8	10	3600 HP diesel	Heavy duty freight engines.
	8	3600 HP diesel	Combination freight and passenger engines.
6		2800 HP diesel	Heavy duty freight engines.
408	300	Box Cars	Wide door for lumber and general use.
200		Insulated box cars	Cushion underframe for food products, canned goods and other high-rated commodities.
250	200	Gondolas	General purpose.
600	500	Covered hoppers	100-ton "jumbos" primarily for grain service.
155	100	End bulkhead flats	Primarily for packaged lumber and aluminum ingots.
150		Wood chip cars	Large cars to move chips to paper mills.
25		Airslide cars	For movement of bulk flour and sugar.
1,788	1,100	TOTAL CARS ADDED TO GREAT NORTHERN FLEET	
		FOR WESTERN FRUIT EXPRESS COMPANY	
200	200	Refrigerator cars	Mechanical temperature control.
1,988	1,300	TOTAL GREAT NORTHERN AND W.F.E. CARS	

IMPROVEMENTS IN FACILITIES

Capital expenditures for improvements in 1966 were at the highest level in many years. Particular emphasis was given to acquisition of new freight equipment to meet the needs of expanding traffic.

Improvements to the property cost $50.3 million, with $14.6 million spent on roadway and structures and $35.7 million on equipment.

Equipment Program

Twenty new freight and passenger locomotive units were included in the equipment program. These high horsepower engines replaced an equal number of older units of lesser horsepower, and have many major improvements making them more suitable for present high speed schedules. They are more dependable in operation and more economical to maintain. The 1966 acquisitions continue our program of replacing the first generation of diesel locomotives placed in service in the 1947-52 period.

The 1,988 new freight cars added to the fleet in 1966 are mostly general service types, but with modern features such as roller bearings, cushion underframes and load restraining devices which make them more desirable from a customer viewpoint.

Further details on new equipment are presented in a tabulation on this page and in illustrations.

Fixed Property Improvements

Our largest single project in the fixed property category was near completion at the year's end as construction progressed on the huge new taconite pellet-handling and storage facility linked with Great Northern's Allouez iron ore docks at Superior, Wisconsin.

This installation will permit year-around shipment of pellets from the taconite plants to the dock area, where they can be unloaded and stored during the winter months or moved directly to the docks for shipment on the Great Lakes during the navigation season. This affords our customers a valuable service in relieving them of winter storage problems, and at the same time benefits the railroad through a better utilization of equipment and facilities.

The overall taconite project includes seven miles of spur line laid to serve two new plants in Great Northern territory on the Mesabi Range.

Other major accomplishments in 1966 included completion of the second phase of a curve-reducing line change 2.6

miles in length east of Summit, Montana, and the extension of centralized traffic control for 36 miles from Columbia River to Ephrata, Washington. Switches and signals in the CTC project are remotely-controlled from Cascade division headquarters at Seattle.

A normal program of laying new rail and ballasting was carried out during the year, with 115 lb. rail laid on 59 miles of main line. An additional 55 miles of secondary lines were relaid with secondhand rail. A total of 275,000 ties were renewed and 592,000 cubic yards of ballast applied. Much of the ballast and secondhand rail was used on branch lines to permit use of 100-ton capacity covered hoppers in grain service on a dependable basis.

Program for 1967

Our 1967 program again emphasizes freight equipment. Total expenditures of $42 million are proposed, with $30.4 million allocated for equipment and $11.6 million for roadway.

Equipment acquisitions will include 18 high horsepower diesel-electric locomotives, eight of which will be equipped for both freight and passenger service. New freight cars will total 1,300, as shown in the table on the preceding page. Additionally, we will rebuild 500 older box cars at our St. Cloud, Minnesota shops. In almost every respect these are completely new cars when they go back into service, and incorporate many modern design features. The current rebuilding program was begun in 1966, and is in addition to normal car repair work carried on at St. Cloud.

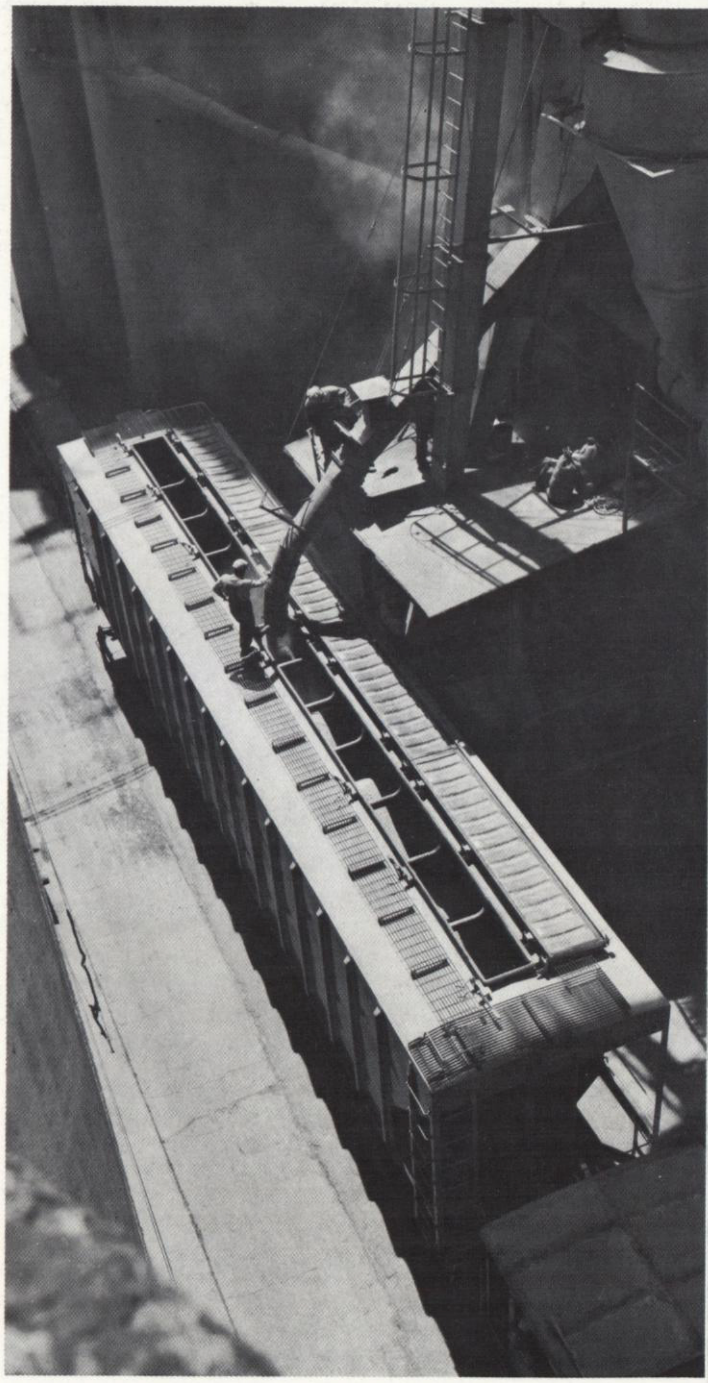
A major property improvement will be modernization of our Interbay freight yard at Seattle, to improve service there and take care of the increasing volume of traffic.

Also planned is completion of the final phase of a major line-straightening project on the west slope of the Cascade Mountains. The 1967 undertaking will be between Halford and Gold Bar, Washington. Higher average speed of trains, greater dependability of service and lower track maintenance costs are resulting from this investment.

Centralized traffic control will be extended between Blackfoot and Conkelley, in the Montana Rockies. The installation on 56.2 miles of line is designed to improve train operation and reduce operating costs.

A major railroad project on which there will be considerable activity in 1967 is the 59-mile line being built and financed by the Federal government to provide a new main line route for Great Northern around the reservoir which will be created by Libby Dam in northwestern Montana. The line, which includes a 7-mile tunnel, is part of a vast electric power and flood control project on the Kootenai River, a tributary of the Columbia.

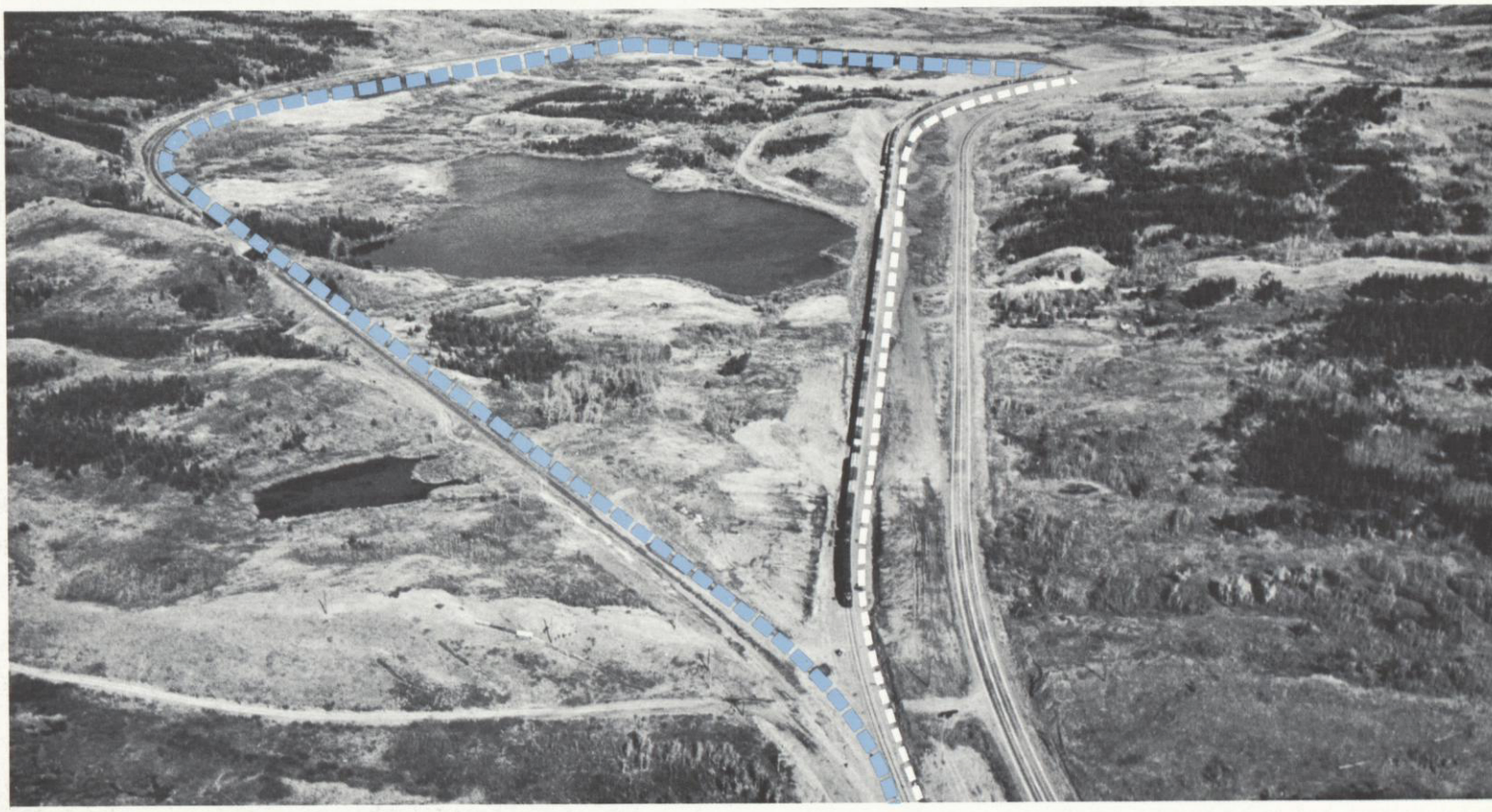
About 7% of all cars loaded with grain on GN in 1966 were jumbo covered hoppers. Their huge capacity—about 1½ times that of the average box car—accounted for an even greater percentage of our total grain movement.

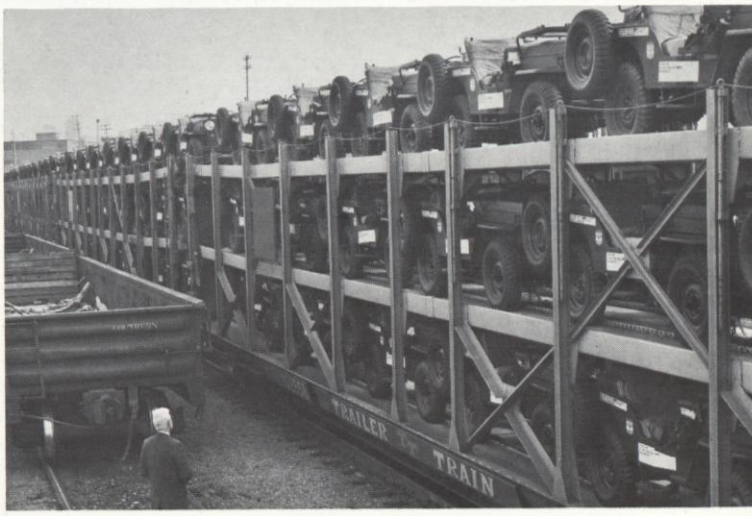


A significant property improvement was carried out in the Montana Rockies in 1966, where a major relocation project south of Glacier National Park shortened our main line by half a mile and brought a substantial reduction in curvature. Faster train speeds and reduced maintenance costs are the expected benefits of a continuing program of changes of this type.

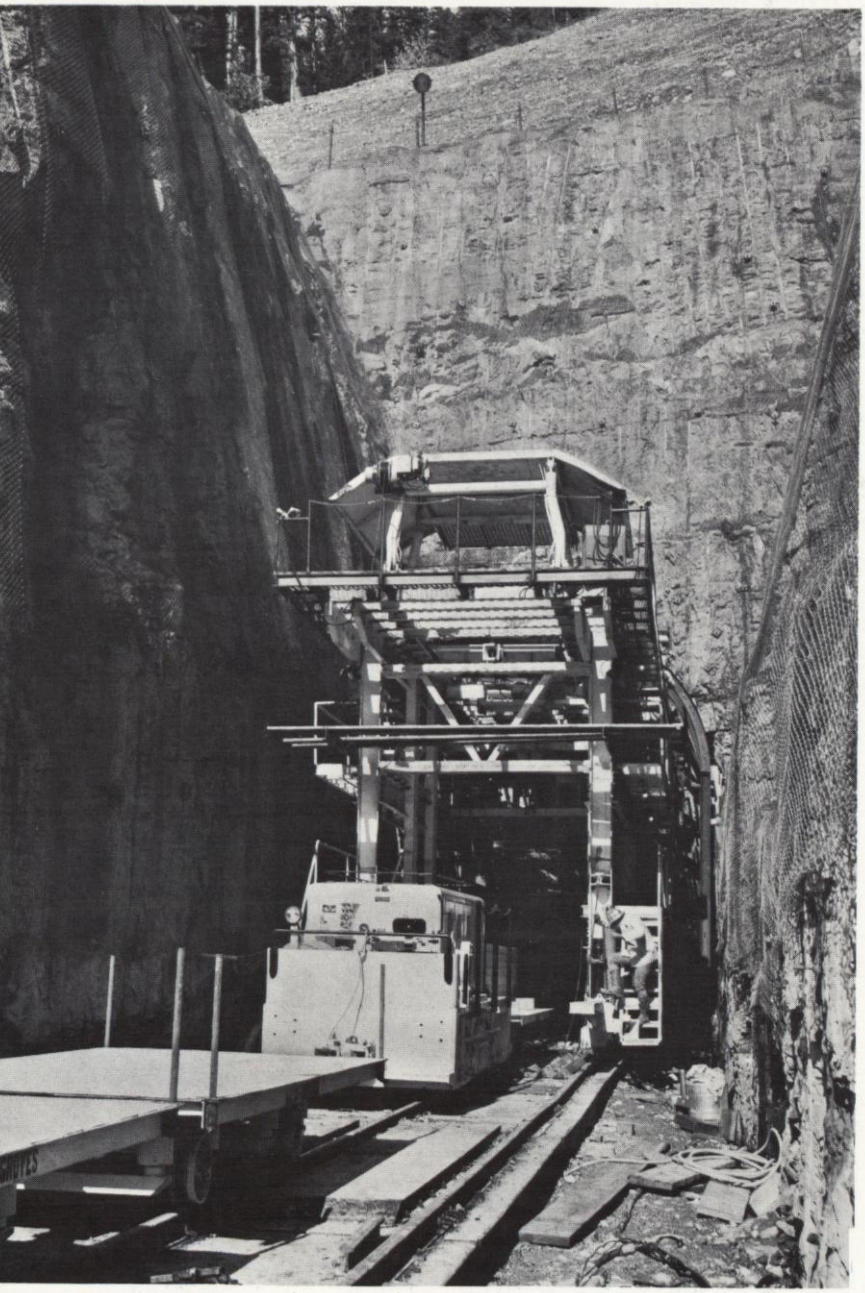
In a successful demonstration of handling paper-wrapped lumber on flat cars, GN moved an entire special trainload from the Pacific Northwest to eastern markets (lower left).

We had another good year in the movement of new autos by rail. Also riding high on the multi-level rack cars were trucks, tractors and military vehicles (lower right).



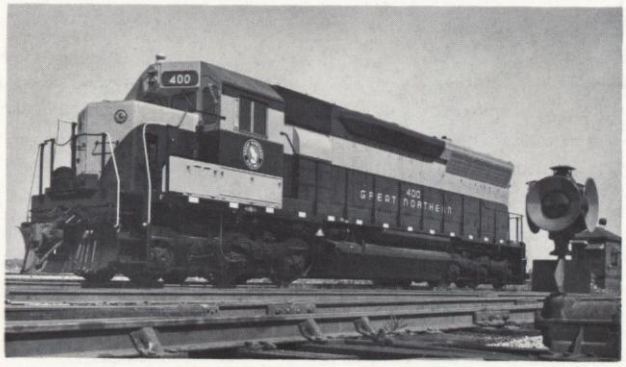


Drilling of the second longest rail tunnel in North America, on Great Northern's 60-mile Libby line relocation in northwestern Montana, began October 3, 1966. Shown here at the west portal is a huge, rail-mounted drilling platform. Completion of 7-mile Flathead Tunnel is set for 1970.



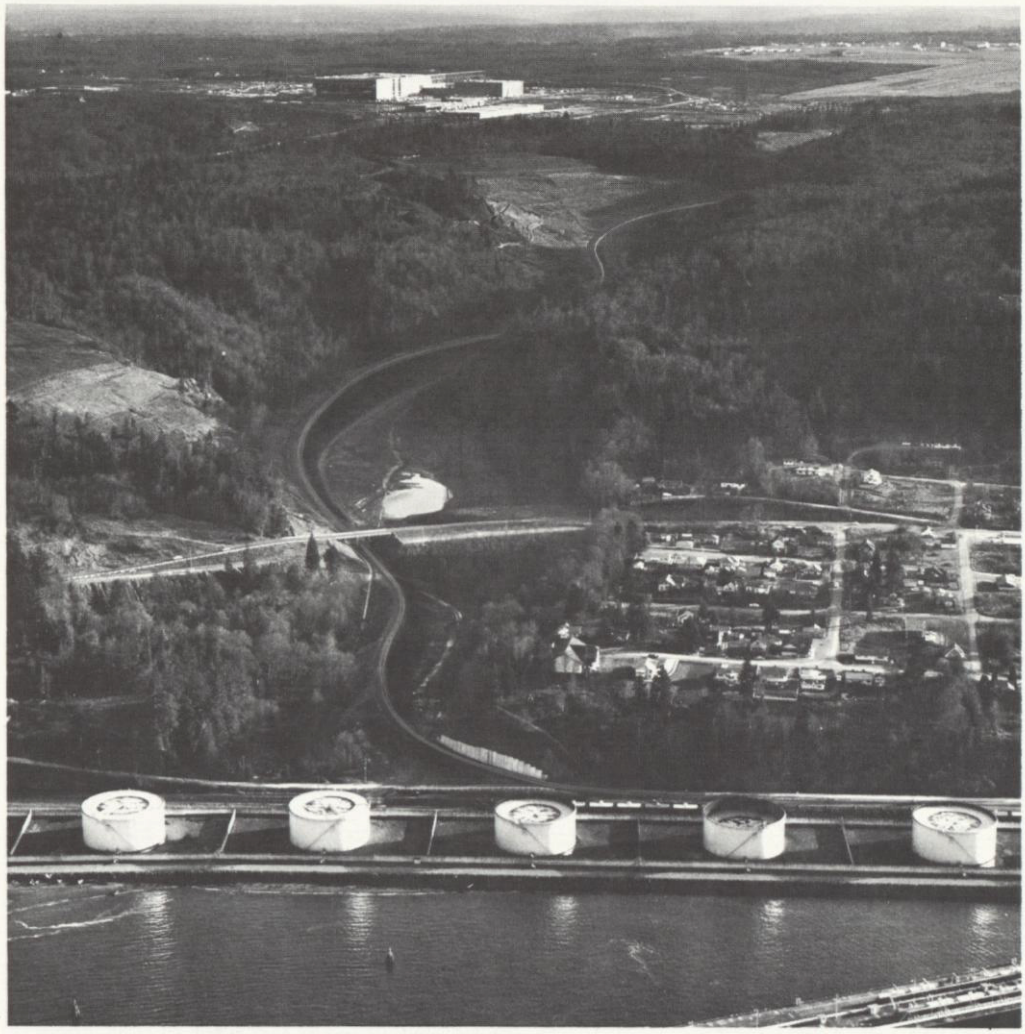
These new box cars have 10-foot-wide doors for faster, more economical loading of lumber and other long-dimension commodities. Cost of such a car: $15,200.

Great Northern was first to acquire this most powerful single-engine diesel locomotive in the nation. Eight of the 3600-HP units went into freight service in 1966.



Two new taconite pellet plants commencing production on GN in 1967 will be served by a 200-car unit train comprised of these specially-modified 75-ton ore cars.

Location of new Boeing 747 jet transport assembly plant on plateau high above Puget Sound is shown graphically in this aerial photo. Great Northern's main line skirts the waterfront, passing a petroleum products storage area and town of Mukilteo. Winding up the steep hillside is new spur line serving Boeing and tapping big area of potential development.



TRAFFIC DEVELOPMENT

The wave of change which is infusing the railway industry with new vitality has been characterized principally in terms of technological progress. However, no less a transformation is occurring in the important area of traffic development.

New emphasis on the role of marketing in developing rail traffic and improving revenues resulted in a number of organizational changes at Great Northern in 1966. Early in the year a basic realignment of the Traffic Department saw the creation of three functional areas: sales and service, pricing and market research. Supervisory regional, district and branch sales offices were designated and a "product line" organization instituted.

Under the latter, supervisory personnel having considerable experience in specific commodity areas have been assigned overall supervision of sales procedures for a certain major commodity or commodities. These commodities account for nearly 95% of our total carload freight traffic, and the assignment of managerial responsibility should enable us to develop greater capability in analyzing and fulfilling our customers' needs.

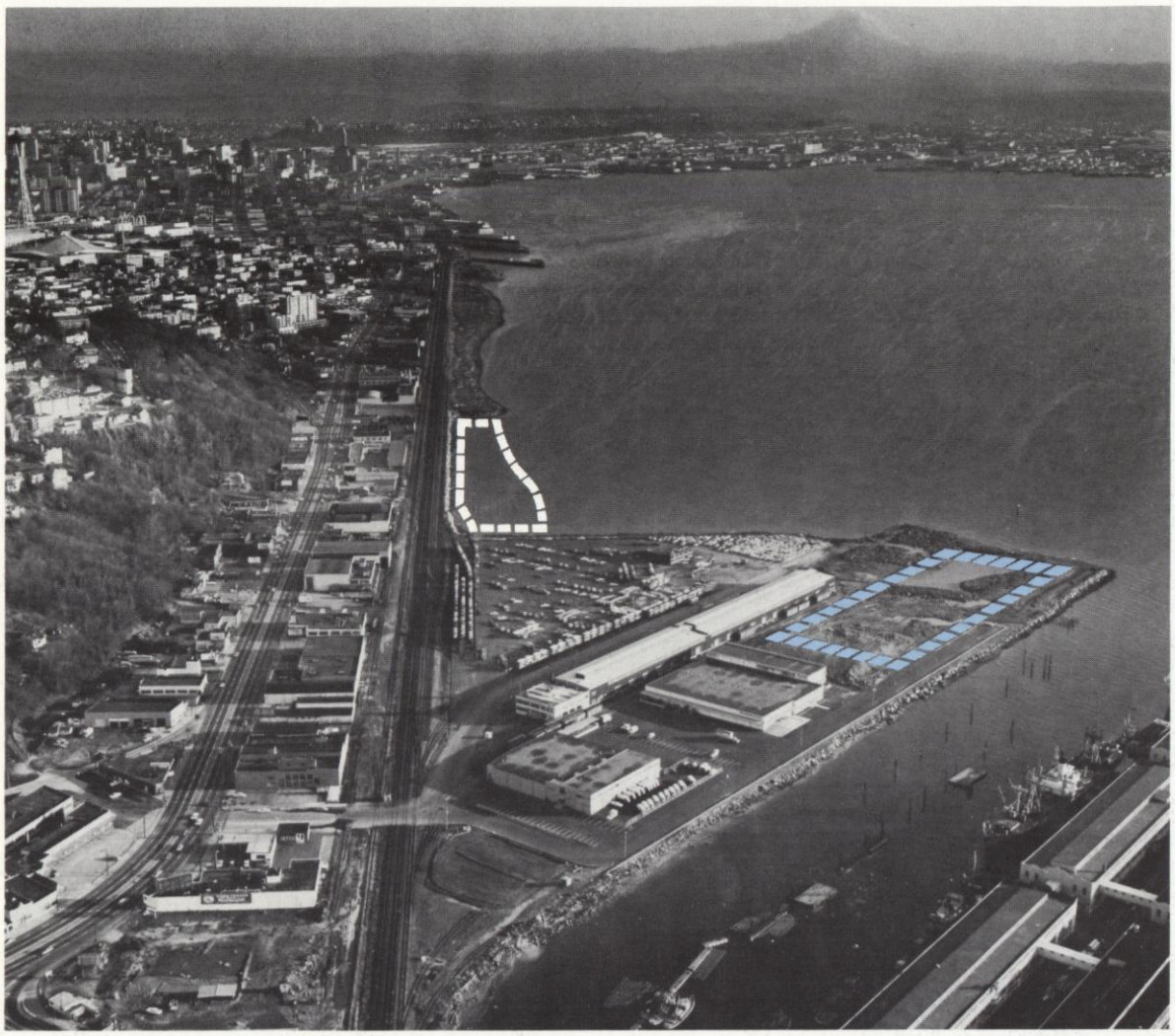
The tools of pricing, equipment and service have been coordinated increasingly to produce savings for the shipper and better earnings for the railroad. The growing emphasis of marketing, however, is on the customer's total cost of distribution. This requires a precise, continuing examination of every portion of our existing traffic and similar careful analysis of the potential. The new computer technology, in which Great Northern has been a railroad leader, is an invaluable asset in gearing for a more sophisticated era of traffic development.

Industrial Expansion

Industrial expansion in our territory in 1966 reached the highest level in five years, with 125 new industries located on Great Northern trackage.

GN also participated in bringing an additional eight new industries to the jointly-operated line between Seattle

Industrial development of GN's historic Smith Cove ocean terminal near downtown Seattle moved ahead in 1966. New England Fish Co. announced plans to build office, processing and storage facilities on land fill between old Piers 88-89 (blue outline). A major grain terminal has been proposed for the site outlined in white. It also would be built on land fill.



and Portland. And finally, our wholly-owned Pacific Coast Railroad announced the first occupants of its attractive, 260-acre Earlington Industrial Park at Renton, Washington, near Seattle.

The numerical dominance of fertilizer plants, warehouses and storage facilities in the 1966 listing reflects the strong agricultural economy of our territory. However, the rapid growth of heavy industry, particularly in the Pacific north coast sector, is having an increasing impact on our revenues.

A substantial percentage of total aluminum production in the United States occurs on Great Northern lines, and last year was one of exceptional growth in this industry.

The $150 million Intalco plant near Ferndale, Washington, northwest of Bellingham, began commercial ingot production in May and was formally dedicated in September. Full operation of its three pot lines by 1968 will bring capacity to 228,000 tons annually, making this one of the largest aluminum producing facilities in the world.

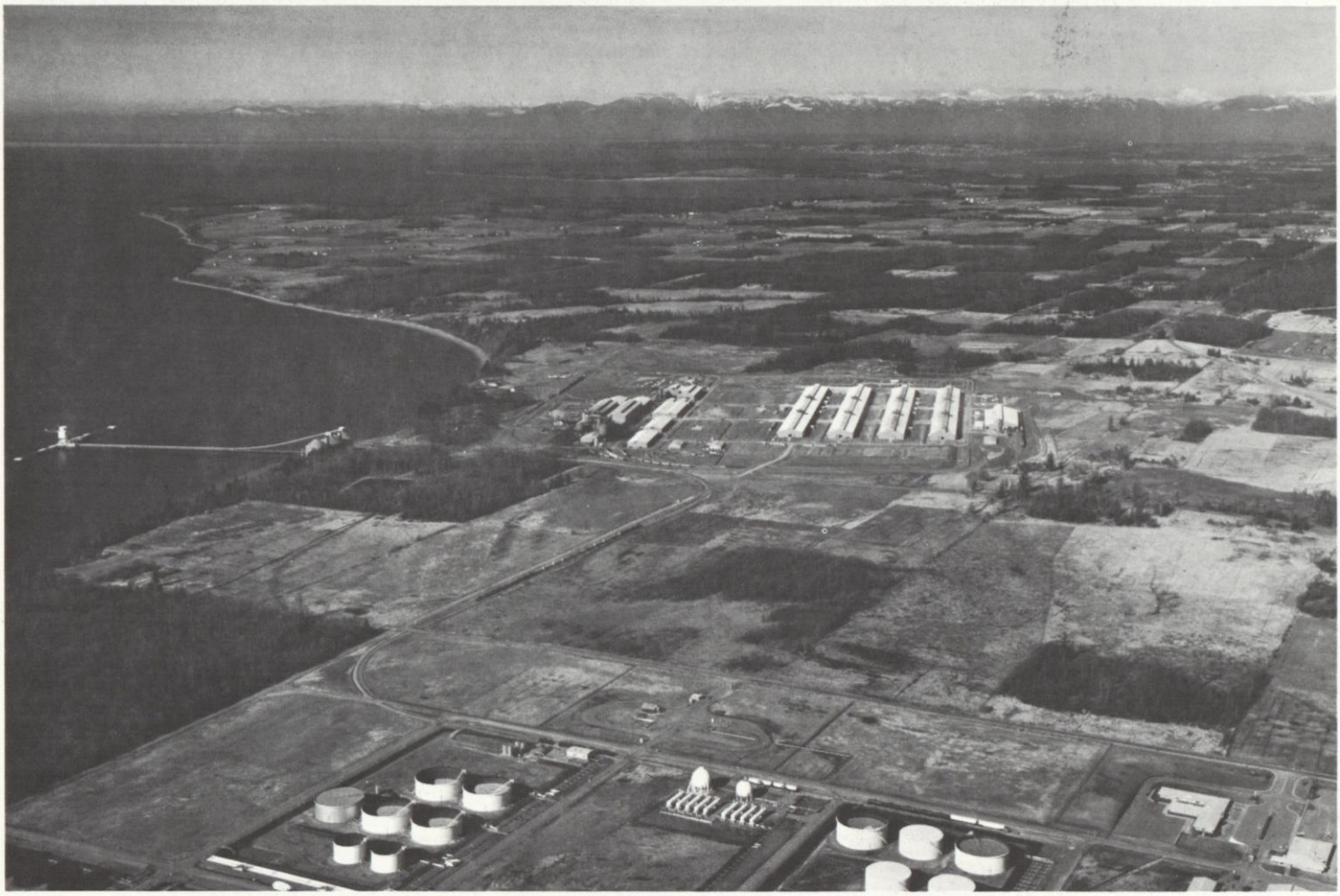
In eastern Washington, near Wenatchee, Alcoa began construction of a fifth pot line at its Malaga plant, where an annual capacity of 175,000 tons will be attained in 1967. Meanwhile, at Columbia Falls, Montana the Anaconda Aluminum Company began construction of a fourth pot line and announced plans for a fifth, which will boost the capacity of its plant to 170,000 tons per year by 1969.

Also in our territory but not exclusively served by our lines are Kaiser Aluminum at Tacoma and Reynolds Aluminum at Longview, Washington, both adding substantially to their ingot production.

Another interesting development is erection by the Kawecki Chemical Co. of a new aluminum alloy plant near Wenatchee. Here molten aluminum from the adjacent Alcoa reduction plant and ingots from more distant producers will be combined with other elements. Master alloy ingots will in turn be shipped to various primary aluminum producers in the Northwest for such uses as processing "sophisticated" metals required by the jet engine and aerospace industries.

High on a plateau between Seattle and Everett, Washington—scarcely more than a mile from Great Northern's main line along Puget Sound but some 500

New industrial giant near Bellingham, Washington is Intalco's aluminum reduction plant, occupying 300 acres of a 1,200-acre tract along Puget Sound. Intalco and neighboring Mobil refinery are served by an 8-mile GN spur line. Another large industrial site which the railway seeks to develop is in the peninsular area beyond the aluminum plant.



feet above it—the Boeing Company is preparing to assemble its 490-passenger 747, the world's largest commercial airliner.

Rapidly taking shape there is what is described as the "world's largest volume building," with 160 million cubic feet devoted primarily to the manufacture, sub-assembly and final assembly of the big jet. It will be completed in September, 1967. Appropriately, the GN spur constructed to serve the plant and a huge new area of potential industrial development, is the second steepest rail line in America, winding up the precipitous hill on an average grade of 5.6%. Now in use hauling hundreds of carloads of construction materials, it will provide a final link between the new Boeing facility and sub-contractors in many parts of the nation.

While not all of our new industries are as glamorous, each is important to Great Northern and represents the culmination of careful planning and assistance by the railway's development experts. A partial listing of representative new facilities, in addition to those already mentioned or pictured here, would include:

The taconite pellet plants nearing completion at Keewatin and Nashwauk, on Minnesota's Mesabi iron range, where the Hanna Mining Company will begin

initial production in the first quarter of 1967; new converters installed at the Anaconda Company's copper smelter at Anaconda, Montana—a fifth in 1966 and a sixth planned for 1967—which will increase the plant's capacity to 200,000 tons of metal per year.

Also Boise Cascade Corporation's new plywood and wood chip plant opening at Kettle Falls, Washington in early 1967; a multi-million dollar cheese manufacturing plant to be constructed by Kraft Foods at Melrose, Minnesota early in 1967; Allied Chemical Corporation's liquid fertilizer blending plant at Moorhead, Minnesota, with a million-gallon capacity; and a 280,000 square-foot warehouse built at St. Louis Park, Minnesota by Minneapolis Terminal Warehouse Company, with space leased to Honeywell Corporation and General Mills.

The railway's Mineral Research and Development Department continued its broad program of fostering the expanded development of key mineral resources in the area served by Great Northern. Among many projects of interest was extensive exploration drilling for lignite deposits in North Dakota and eastern Montana, undertaken jointly with the Baukol-Noonan Coal Company.

Dams

The construction of major power-producing dams on the Columbia River and its tributaries has been a signal factor in Northwest industrial development ever since the building of Grand Coulee a quarter of a century ago. This is graphically illustrated by the expanding aluminum industry, a heavy consumer of electric power.

Of interest in 1966 was the announcement that a third power plant will be erected at Grand Coulee, making it the world's largest power producer. Construction beginning in mid-1967 will add 3.6 million kilowatts, boosting total generating capacity to 5.6 million kilowatts.

Meanwhile, preliminary work was done during the year on giant Libby Dam, principally on relocation of GN's main line, discussed earlier. The $352 million project, on the Kootenai River in northwestern Montana, will include a hydropower plant with an initial installation of three 105,000-kilowatt generators and provisions for future additional units.

Another major project is the $50.9 million Wells Dam on the Columbia River above Wenatchee, Washington, midway between Rocky Reach and Chief Joseph Dams. Being built by the Douglas County Public Utility District, Wells is about 86% completed and will have a capacity of 820,000 kilowatts.

Further north, on the Pend Oreille River near the Canadian border, Seattle City Light has brought its new Boundary Dam to about 75% completion. Plans call for installation of four 15,000-kilowatt generators.

PERSONNEL

Productivity of Great Northern's labor force as a whole, measured in traffic units produced per dollar of labor costs, increased slightly during 1966. While the present level is somewhat better than a few years ago, it reflects the investment of many millions of dollars in labor-saving equipment.

The number of employees rose from 16,655 to 16,797 in response to the higher volume of traffic.

A considerable number of employees are shareholders, and their number continues to increase as purchases of stock on the open market are made through the monthly investment plan of the New York Stock Exchange, with commissions paid by the railway company.

The Personnel Department has expanded its activities, with experienced people being assigned to new positions in stepped-up recruiting of college graduates, better administration of salaries and an employee suggestion program which will begin operation in 1967.

The year brought a reduction in the rate of employee on-the-job injuries. The ratio of casualties resulting in loss of time exceeding 24 hours was 8.37 for each million man-hours worked, as compared with 8.50 in 1965.

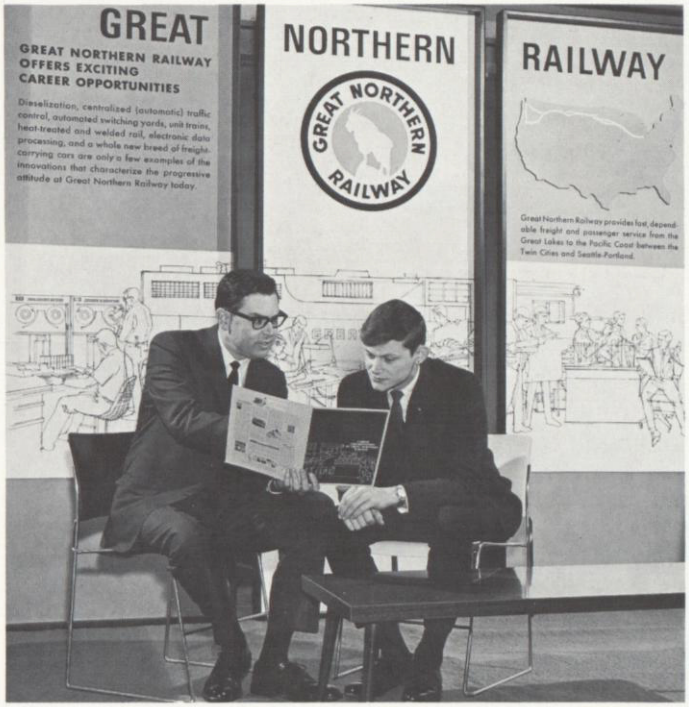
Labor Relations

In the labor field 1966 was a year of active negotiation at the national level, since labor agreements currently in effect permitted changes in wage rates at various dates during the year for the operating unions and on January 1, 1967 for the non-operating unions.

A pattern apparently has been set by agreements with two of the major operating unions, providing a 5% increase effective August 12, 1966 and extending through 1967. A similar 5% increase, effective January 1, 1967 for a one-year period, was negotiated with a major non-operating union. Included in the settlement was some liberalization of the rules applying to paid vacations.

Also in 1966 a movement on the part of the labor organizations to obtain supplementary pensions resulted in an agreement with railroad management. Subsequently a joint request was made to Congress to amend the Railroad Retirement Act to increase pensions to those already retired and those retiring in the next five years. The added cost will be borne by the railroads and financed through an increase in the payroll tax. Altogether the changes in wages and pension payments are estimated to cost approximately 6% of compensation paid.

Career opportunities for college graduates are given special emphasis in the railway's accelerated employee recruitment program. Pictured here in a campus career festival booth is Earle D. Adamson, newly-appointed manager of personnel development, who is interviewing Stephen Schumacher, now employed by Great Northern.



TREND OF LABOR COSTS AND PRODUCTIVITY

Year	Average Wages Per Hour Worked*	Average Fringe Benefits Per Hour Worked	Total Labor Cost Per Hour Worked	Productivity (Traffic Units Per Dollar of Labor Costs)**
1940	$ .79	$ .05	$ .84	247
1950	1.71	.17	1.88	147
1960	2.88	.56	3.44	119
1961	2.96	.62	3.58	118
1962	3.04	.66	3.70	126
1963	3.09	.67	3.76	133
1964	3.18	.70	3.88	132
1965	3.37	.81	4.18	135
1966	3.45	.89	4.34	136

**Excludes pay for vacation, sick leave and holidays.*
***Traffic units are net ton miles plus passenger miles.*

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-seven years later, in 1966, the cost had swollen to $29,609,495.

During this same period the average wages per hour worked increased 337%, while the average fringe benefits per hour worked increased 1680%. In terms of total compensation per hour worked there was an increase of 417% in the two decades.

FINANCIAL AND CORPORATE

On the last record date in 1966, Great Northern was owned by 44,519 stockholders, a decrease of 495 during the year. Shares outstanding at the end of the year totaled 6,152,611. Quarterly dividends of 75¢ per share were paid on the first of February, May, August and November.

Funded Debt

Funded debt at the end of 1966 was $250,318,524. There was no change in mortgage bonds outstanding, but two new equipment trusts totaling $11,145,000 were sold to finance 80% of the cost of part of the new equipment acquired during the year.

As of December 31	1961	1962	1963	1964	1965	1966
			(Millions)			
General Mortgage Bonds	$178.7	$178.7	$178.7	$178.7	$178.7	$178.7
Equipment Obligations	63.7	56.2	59.1	58.9	69.5	71.6
Total Funded Debt	$242.4	$234.9	$237.8	$237.6	$248.2	$250.3

While a considerable amount of new equipment was paid for in cash during the period of very tight money and high interest rates in 1966, the new equipment trusts sold exceeded the principal paid on existing trusts. Accordingly, the amount of debt outstanding increased during 1966 by $2.1 million. However, total assets of the company increased $25.3 million during the year.

Lease obligations for equipment are relatively minor, and payments amounted to $1.7 million in 1966. Included are arrangements covering 1,500 secondhand box and hopper cars leased in the past on which the obligation extends for up to seven years, and 100 new covered hoppers leased early in 1966 with a 19-year obligation.

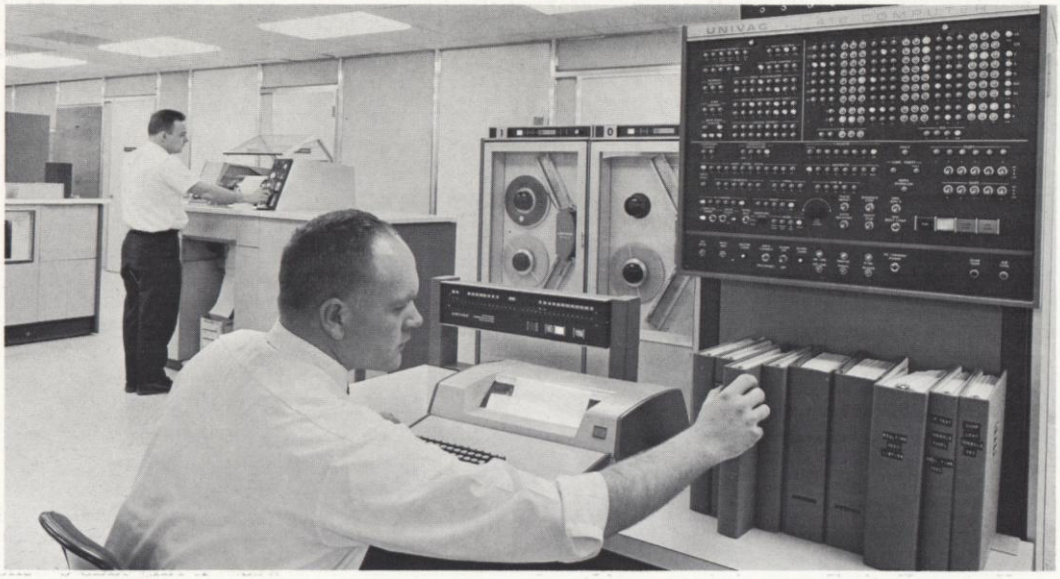
Depreciation charges, which are included in maintenance accounts as an expense but do not require payment of actual cash, amounted to $16.9 million in 1966. This is more than enough to make the annual principal payments on existing equipment trusts amounting to $7.6 million in 1967, and to make the 20% down payment on new equipment covered by trusts during the year.

Effect of Tax Laws on Net Income

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 of 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.

Newest hardware in GN's impressive data processing center is this Univac 418, our first "real time" electronic computer. It augments other highly-sophisticated equipment and foreshadows availability of instantaneous information, with exciting implications for GN.



The net effect in 1966 of the tax adjustments, with consequent reduction in income taxes, is net income $2.4 million or 39¢ per share greater than would have been reported had the tax benefits not been taken. This compares with $5.6 million or 91¢ per share in 1965. Accordingly, the spread between earnings reported in accordance with Interstate Commerce Commission regulations and net income without these tax adjustments was considerably less than in recent years.

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 when beneficial and also will use the guidelines permitted in estimating the life of property for tax purposes. The changes in tax regulations and the law were intended to encourage acquisition of new equipment and they had a strong influence on Great Northern's large programs for 1966 and 1967. The effect of this tax accounting is to reduce current income taxes and to increase net income as shown in the following table.

	Change in Net Income Due to Amortization of Defense Facilities		*Increase in Net Income Due to Accelerated Depreciation and Guideline Lives*		*Total Increase in Net Income*	
Year	*Amount (Millions)*	*Per Share*	*Amount (Millions)*	*Per Share*	*Amount (Millions)*	*Per Share*
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	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	3.6-I	0.59-I	2.4-I	0.39-I
1967 (est.)	1.2-D	0.20-D	3.5-I	0.57-I	2.3-I	0.37-I

Affiliates and Subsidiaries

Great Northern received substantial amounts from affiliated companies in which it has investments. Largest of these is the 48.6%-owned Chicago, Burlington & Quincy Railroad Company, from which $6.2 million in dividends was received. The Burlington's earnings were

sharply higher in 1966, rising to $23.8 million from $16.7 million in 1965. The results were very much better in 1966 because of the absence of unusual flood expenses which occurred in 1965, a successful campaign for reduction of expenses and higher revenues from the greater volume of traffic.

The Spokane, Portland and Seattle Railway Company, owned 50% each by Great Northern and Northern Pacific, had a good year. Revenue increased in spite of the downturn in the lumber industry and net income rose to $3.7 million in 1966 from $2.6 million in 1965. Great Northern received $911,700 in mortgage bond interest during the year, and in addition the SP&S reacquired $1.5 million principal amount of bonds from each parent company.

The Western Fruit Express Company, wholly-owned by Great Northern, operates a fleet of 5,894 refrigerator cars as part of a pool including Burlington Refrigerator Express and Fruit Growers Express. Its net income was much more satisfactory than in 1965, rising from $442,000 to $986,000, and a dividend of $204,000 was paid to Great Northern.

Western Fruit Express is in the midst of an important change in its equipment. The older cars in its fleet are rapidly becoming obsolete because of their small capacity and because ice is used as the refrigerant. The new equipment being acquired is larger and is refrigerated or heated with mechanical equipment driven by a small diesel engine. In addition, box cars with heavy insulation are being acquired to protect shipments which require a lesser degree of protection from extreme temperatures.

Portal Pipe Line Company, 43¾%-owned by Great Northern, had a successful year with net income rising to $1.5 million from $1.3 million in 1965.

Among other subsidiaries which contributed to Great Northern in 1966 was Pacific Coast Railroad, which paid a dividend of $500,000.

Legislation

In 1966 probably the most significant legislation affecting the railroad industry was passage by Congress of a law creating a Department of Transportation headed by a Secretary at the Cabinet level. The new department will include functions in the fields of railroad, air, waterway and highway transportation. Most regulatory activities will remain in the independent commissions, but the new department will have responsibilities for promotion and development of all of the modes of transportation under its jurisdiction.

For a number of years bills have been introduced in Congress to give the Interstate Commerce Commission broader authority in setting the freight car rental rates which railroads pay each other for use of cars. The object is to establish rates which would be fair to owners and provide an incentive for greater car ownership.

The law was passed after several years of effort, and the Interstate Commerce Commission has started a proceeding to implement the new law.

In the field of state legislation an important step was taken in November 1966 when voters in the State of Washington approved a measure repealing the state law which required excess crew men on freight trains. As a result the consist of crews will be based on need in the future. No employees will lose their jobs as a result of repeal of the law since elimination of positions will take place only as attrition permits. However, immediate savings will be obtained as there is a shortage of employees at this time to handle the heavy flow of traffic.

Litigation

In the annual reports of recent years mention has been made of the disputes which have arisen between the western railroads on the one hand and the eastern and midwestern lines on the other with respect to the apportionment of freight revenues on through shipments from one area to another. Following proceedings before the Interstate Commerce Commission and in the courts, the cases were compromised except with a part of the midwestern group of railroads. It is anticipated that a final settlement will probably be reached in 1967 with the non-settling midwestern lines. A reserve established against possible loss of the case amounted to $3.0 million at the end of 1966.

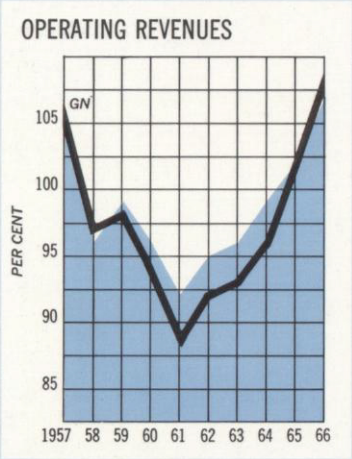
Another case of long standing concerns the daily rental rate to be paid for use by one railroad of cars belonging to another. An examiner of the Interstate Commerce Commission recommended in 1965 that lower charges be prescribed than are presently in effect. No decision has been reached by the I.C.C.

Meanwhile, the Commission is carrying out an investigation of the adequacy of freight car ownership, car utilization and distribution rules and practices. Elaborate statistical material was gathered and hearings have been held but no conclusions have been reached. Meanwhile, the railroad industry is making progress toward agreement on guidelines for ownership of cars and is determined to resolve its problems of car supply and distribution on a national basis. In connection with the railroad industry's efforts to straighten out this complex matter, steps are being taken by the Association of American Railroads to establish a computerized data collecting agency which would provide more accurate and up-to-date information on car supply matters.

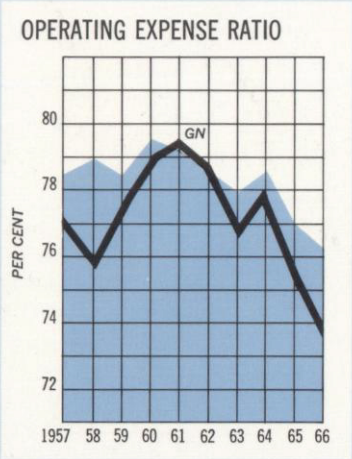
GREAT NORTHERN RAILWAY COMPANY

CHANGE IN WORKING CAPITAL *January 1 to December 31, 1966*

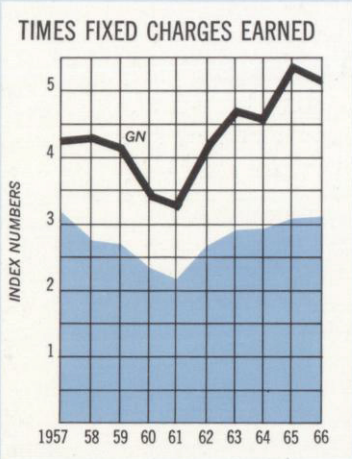
BALANCE AT BEGINNING OF YEAR		$ 75,942,092
SOURCES OF WORKING CAPITAL:		
Net income	$36,547,109	
Depreciation and other non-cash income items	18,479,985	
Total provided from operations	$55,027,094	
Sale of property, investments, and other assets	2,821,375	
Sale of common stock (stock option)	600,362	
Proceeds from equipment financing	11,145,000	69,593,831
		$145,535,923
APPLICATIONS OF WORKING CAPITAL:		
Additions and betterments to property and equipment	$51,844,349	
Reduction in long-term debt	8,976,624	
Dividends on common stock	18,456,558	
Other—net	1,478,554	80,756,085
BALANCE AT END OF YEAR		$ 64,779,838
NET DECREASE IN WORKING CAPITAL		$ 11,162,254



Both Great Northern and the railroad industry shared in the growth of the economy in 1966. Many new industries were added and old ones expanded to add to the stream of freight traffic.



Continuing improvement of facilities and the favorable physical characteristics of our main lines contributed to the lowest ratio of operating expenses to revenue on GN since 1955.



With net income continuing at a high level, coverage of fixed charges after Federal income taxes at 5.1 times was considerably better than the average of the Class I railroads in the U.S.

GREAT NORTHERN RAILWAY

ALL CLASS 1 R.R. U.S.

1966 Class 1 Railroad statistics are estimated

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.

GREAT NORTHERN RAILWAY COMPANY

STATEMENT OF INCOME

Year ended December 31, 1966 with comparative figures for 1965

	1966	1965
OPERATING REVENUES:		
Freight	$251,753,940	$236,874,590
Passenger, mail and express	21,603,977	20,604,101
Other	8,419,158	8,150,913
Total operating revenues	281,777,075	265,629,604
OPERATING EXPENSES:		
Transportation	102,571,176	98,586,515
Maintenance of way and structures	37,991,874	36,244,249
Maintenance of equipment	45,226,655	44,649,786
Traffic, general and other	22,066,870	21,201,092
Total operating expenses	207,856,575	200,681,642
NET REVENUE FROM RAILWAY OPERATIONS	73,920,500	64,947,962
TAXES AND RENTS:		
Federal income tax (notes 1 and 2)	12,723,000	5,787,578
Payroll taxes	11,955,587	10,576,680
Property and other taxes	12,673,374	12,338,117
Equipment and joint facility rents – net	4,280,640	3,205,326
Total taxes and rents	41,632,601	31,907,701
NET RAILWAY OPERATING INCOME	32,287,899	33,040,261
OTHER INCOME:		
Dividends	7,391,247	6,851,532
Interest	5,015,034	4,521,416
Rent and miscellaneous income – net	731,696	956,716
Total other income	13,137,977	12,329,664
	45,425,876	45,369,925
INTEREST ON LONG-TERM DEBT, INCLUDING AMORTIZATION OF DISCOUNT	8,878,767	8,460,100
NET INCOME	$ 36,547,109	$ 36,909,825
PER SHARE (including 39¢ in 1966, 91¢ in 1965, attributable to acceleration of depreciation deductions for income tax purposes (see note 1) and 38¢ in 1965, representing a tax refund and interest)	$ 5.94	$ 6.01

STATEMENT OF RETAINED INCOME

RETAINED INCOME AT BEGINNING OF YEAR	$414,104,682	$393,560,551
NET INCOME FOR YEAR	36,547,109	36,909,825
	450,651,791	430,470,376
DEDUCT:		
Dividends – $3.00 a share in each year	18,456,558	18,409,694
Miscellaneous credits less related income taxes:		
Restoration of provisions for possible retroactive payments (1963-65) in Transcontinental Divisions cases as prescribed by Interstate Commerce Commission (note 3)	(942,309)	(1,372,000)
Reduction in amounts provided for unfunded past service pension costs by charges against retained income in prior years	—	(672,000)
	17,514,249	16,365,694
RETAINED INCOME AT END OF YEAR (NOTE 1)	$433,137,542	$414,104,682

See accompanying notes to financial statements.

GREAT NORTHERN

BALANCE

DECEMBER 31, 1966 WITH

ASSETS	1966	1965
CURRENT ASSETS:		
Cash and temporary cash investments	$ 81,760,367	$ 89,654,886
Accounts receivable	20,849,155	22,463,633
Material and supplies, at cost	19,232,016	17,419,538
Other current assets	600,903	704,870
Total current assets	122,442,441	130,242,927
CAPITAL AND OTHER SPECIAL FUNDS	2,633,718	3,027,114
INVESTMENTS, AT OR BELOW COST:		
Affiliated companies (note 4)	166,059,475	166,350,906
Other companies	5,813,682	5,768,763
Total investments	171,873,157	172,119,669
PROPERTIES:		
Road and roadway structures, etc.	577,181,669	565,211,105
Equipment	401,799,113	374,760,709
Total transportation property	978,980,782	939,971,814
Allowance for depreciation and amortization	269,045,802	260,907,645
Net transportation property	709,934,980	679,064,169
Non-operating property	14,869,229	13,309,079
Net properties	724,804,209	692,373,248
OTHER ASSETS AND DEFERRED CHARGES	14,504,782	13,194,437
TOTAL ASSETS	$1,036,258,307	$1,010,957,395

See accompanying notes to financial statements.

RAILWAY COMPANY

SHEET

COMPARATIVE FIGURES FOR 1965

LIABILITIES AND SHAREHOLDERS' EQUITY	1966	1965
CURRENT LIABILITIES:		
Accounts payable	$ 14,908,473	$ 12,654,796
Accrued payroll and vacation pay	11,533,691	11,033,557
Accrued taxes	20,552,264	20,406,655
Dividends payable	4,614,702	4,605,638
Other current liabilities	6,053,473	5,600,189
Total current liabilities (excluding debt due within one year)	57,662,603	54,300,835
DEBT DUE WITHIN ONE YEAR	7,661,624	8,549,624
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

	178,662,900	178,662,900
Equipment and other obligations, 2⅝% to 5¼%	63,994,000	60,937,624
Total long-term debt	242,656,900	239,600,524
PROVISION FOR UNFUNDED PAST SERVICE PENSION COSTS	11,300,000	11,300,000
RESERVES AND OTHER LIABILITIES (NOTE 3)	11,315,152	11,177,606
Total liabilities	330,596,279	324,928,589
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 – 56,305 shares (69,000 shares in 1965) (note 5)	2,623,805	3,183,803
Common stock outstanding – 6,152,652 shares (6,139,957 shares in 1965)	271,404,345	270,844,347
Capital surplus (note 5)	1,120,141	1,079,777
Retained income (note 1), including $1,125,000 in each year appropriated for sinking funds	433,137,542	414,104,682
Total shareholders' equity	705,662,028	686,028,806
CONTINGENT LIABILITIES (NOTE 6)		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,036,258,307	$1,010,957,395

GREAT NORTHERN RAILWAY COMPANY

NOTES TO FINANCIAL STATEMENTS *December 31, 1966*

1. In the accompanying financial statements, Federal income taxes have been reduced and net income correspondingly increased by approximately $2,400,000 ($5,600,000 in 1965) through acceleration of depreciation 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, 1966, amounted to $59,900,000.

2. Federal income taxes in the statement of income have been reduced $4,450,000 ($3,000,000 in 1965) through application of a tax investment credit and by $566,000 ($289,000 in 1965) as a result of adjustment of prior years' provisions for income taxes. The Company intends to file a consolidated income tax return with its 80% or more owned subsidiaries and will therefore obtain the benefit of tax investment credits of the consolidated group. At December 31, 1966 an unused tax investment credit of approximately $1,800,000 will be available as a credit against Federal income taxes payable in future years by the Company and such subsidiaries.

3. Pursuant to ruling by the Interstate Commerce Commission, amounts provided by charges to income in the years 1963-1965 for possible retroactive payments to certain midwestern railroads for revised apportionments of transcontinental freight revenue were restored to retained income, net of related income taxes, in 1966. No retroactive payments are required for periods prior to the effective date under terms of settlement agreements with these railroads. Amounts restored to retained income in 1965 related to settlements with eastern railroads.
The accompanying balance sheet at December 31, 1966, includes a reserve of $3,049,000, provided during the years 1963-1966, for possible retroactive adjustments with other midwestern roads with which settlement agreements have not been executed.

4. Investments in affiliated companies included $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 $10,031,734 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, 1966 (as shown by their unaudited financial statements) amounted to $27,952,859. The Company's equity in net income of unconsolidated subsidiaries amounted to $1,672,238 in 1966 ($1,375,454 in 1965) of which $704,000 in 1966 ($204,000 in 1965) was received as dividend income.

5. Treasury stock includes 28,451 shares at December 31, 1966 (41,296 shares in 1965) reserved for officer and key employee options at prices ranging from $35 to $58 a share. During the year ended December 31, 1966, the Company reissued 12,695 shares of treasury stock upon exercise of stock options.
Capital surplus has been increased by the excess of proceeds of sales over stated value of stock issued upon exercise of stock options, $40,364.

6. At December 31, 1966 the Company was liable as guarantor of certain obligations of affiliated companies amounting to approximately $10,180,000. 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 $81,400,000.
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, 1966 amounted to $11,574,000 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, 1966, and the related statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes, referred to in note 1 to the financial statements, such financial statements present fairly the financial position of Great Northern Railway Company at December 31, 1966 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 13, 1967

Peat, Marwick, Mitchell & Co.

DIRECTORS

Seated, left to right

PHILIP H. NASON
President
The First National Bank of Saint Paul, St. Paul

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

FREDERICK K. WEYERHAEUSER
Retired Chairman of the Board, Weyerhaeuser Company, St. Paul

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

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

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

Standing, left to right

****RONALD M. HUBBS**
President, St. Paul Fire & Marine Insurance Company, St. Paul

***JOHN S. DALRYMPLE, JR.**
Manager, Dalrymple Farms
Casselton, North Dakota

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

WILLIAM H. LANG
President
Foley Brothers, Inc., St. Paul

J. HOWARD LAERI
Vice Chairman
First National City Bank
New York

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

*Succeeded J. Stewart Baker, May 12, 1966 ** Succeeded Walter G. Seeger, December 16, 1966

OFFICERS

JOHN M. BUDD.....President, St. Paul

ROBERT W. DOWNING.....Vice President Executive Department, St. Paul

CLARK A. ECKART.....Vice President Executive Department, Seattle

M. M. SCANLAN.....Vice President Traffic Department, St. Paul

JOHN L. ROBSON.....Vice President Operating Department, St. Paul

ANTHONY KANE.....Vice President and General Counsel, St. Paul

JOHN A. TAUER.....Vice President and Comptroller, St. Paul

THOMAS C. DE BUTTS.....Vice President Labor Relations Department, St. Paul

RICHARD M. O'KELLY....Secretary and Treasurer, St. Paul

TRANSFER AGENTS

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

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

MARTIN H. WEBER.....Transfer Agent, New York

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

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

GENERAL OFFICES *Great Northern Building, St. Paul, Minnesota 55101*
FINANCIAL OFFICES *40 Wall Street, New York, N.Y. 10005*

The annual meeting of Shareholders will be held at St. Paul on May 11, 1967.

Great Northern Railway Company, Saint Paul, Minnesota