

NORTHERN PACIFIC

Railway Company

67th
ANNUAL
REPORT



1963

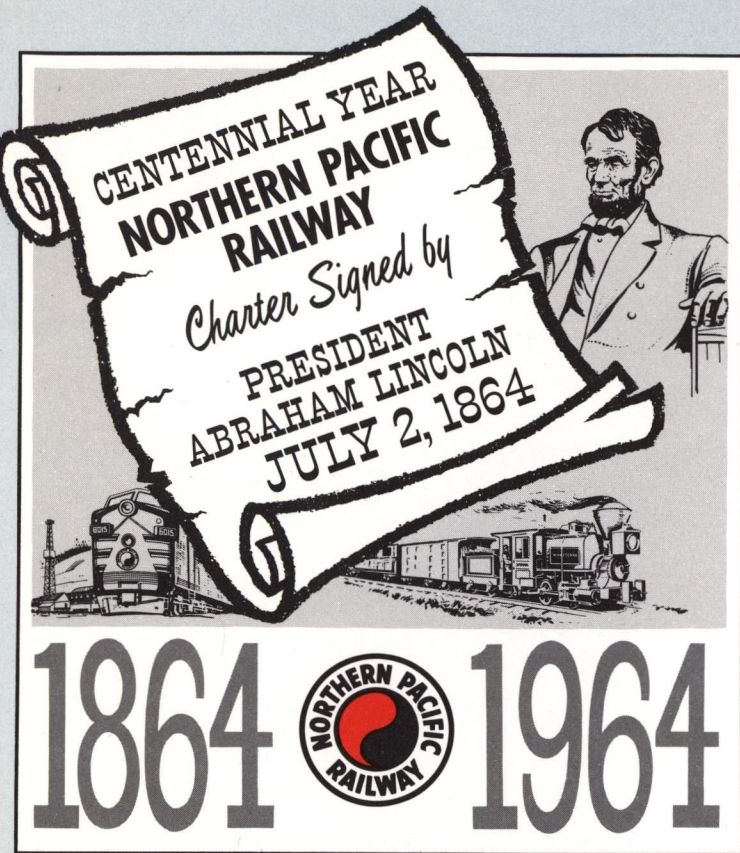


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The building of a northern transcontinental rail line, to follow closely the route blazed by Lewis and Clark, had been advocated as early as 1834. But it was not until 30 years later, when the nation was still divided in the strife of the great Civil War, that Congress enacted a law to authorize the project. President Abraham Lincoln approved this act and signed the Northern Pacific Railroad charter on July 2, 1864. Construction of the main line began in 1870 and progressed rapidly for three years. Work was suspended during five years of Indian wars, financial crises and unforeseen engineering difficulties. Last spike ceremonies, marking completion of the first northern transcontinental rail link were held September 8, 1883. Within seven years of that date, the entire tier of northwestern territories had gained sufficient population to enter the Union as states.

THE NORTHERN PACIFIC TRADEMARK

The origin and design of Northern Pacific's trademark, shown on the cover of this report, may be of interest to our stockholders. The central portion of the trademark, called The Monad, is a symbol of ancient oriental origin and the ideas it represents date back more than 5,000 years. According to Chinese philosophy the two comma-shaped halves represent the Yang and Yin, which in turn represent light and darkness, force and matter, heaven and earth, male and female.

The Monad was of such interest to Northern Pacific officials that it was adopted as a part of the company's trademark design in 1893. Today, after nearly three quarters of a century, it remains a sign of good rail transportation. The Company publishes a small booklet, "The Story of the Monad" which explains more in detail the origin and meaning of this ancient symbol. If you are interested, a copy will be mailed to you on request to the Advertising and Publicity Department, Northern Pacific Railway, St. Paul, Minn. 55101.

PRINCIPAL OFFICE OF THE COMPANY:

NORTHERN PACIFIC BUILDING, ST. PAUL, MINN.

FISCAL AND TRANSFER AGENTS:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, NEW YORK, N.Y.

REGISTRAR OF STOCK:

MANUFACTURERS HANOVER TRUST COMPANY, NEW YORK, N.Y.

THE ANNUAL MEETING of stockholders will be held at the general offices of the company in St. Paul, Minn. on April 23, 1964 at 10:00 A.M. Formal notice of the meeting will be mailed to stockholders on March 20th.

BOARD OF DIRECTORS

***CHARLES H. BELL**
Minneapolis, Minn.
Chairman of the Board,
General Mills, Inc.

CARL H. BURGESS
St. Paul, Minn.
Vice President, Northern
Pacific Railway Company

JOHN E. CORETTE
Butte, Mont.
President and General Manager,
The Montana Power Company

***DONALD C. DAYTON**
Minneapolis, Minn.
President, The Dayton Company

***CHARLES DEVENS**
Boston, Mass.
President, Incorporated Investors
and Incorporated Income Fund

***ROBERT S. MACFARLANE**
St. Paul, Minn.
President, Northern Pacific
Railway Company

JOHN M. MEYER, JR.
New York, N. Y.
Executive Vice President,
Morgan Guaranty Trust Company

***PHILIP L. RAY**
St. Paul, Minn.
President, Great Northern
Iron Ore Properties

JAMES S. ROCKEFELLER
New York, N. Y.
Chairman,
First National City Bank

WILLIAM G. REED
Seattle, Wash.
Chairman, Simpson Timber Company

JOHN F. SMITH, JR.
Chicago, Ill.
President and Director,
Inland Steel Company

***NORTON SIMON**
Fullerton, Cal.
President, Hunt Foods
and Industries, Inc.

EDWARD B. STANTON
St. Paul, Minn.
Vice President, Northern
Pacific Railway Company

*Member of
Executive Committee

OFFICERS

| | |
|--|---------------------|
| ROBERT S. MACFARLANE, President | St. Paul, Minnesota |
| EDWARD B. STANTON, Vice President | St. Paul, Minnesota |
| CARL H. BURGESS, Vice President, Operation and Maintenance | St. Paul, Minnesota |
| WM. J. LUCHSINGER, Vice President, Traffic | St. Paul, Minnesota |
| GEORGE M. WASHINGTON, Vice President, Oil Development | Billings, Montana |
| EARL F. REQUA, Vice President and General Counsel | St. Paul, Minnesota |
| DEAN H. EASTMAN, Vice President and Western Counsel | Seattle, Washington |
| DAVIS POLK WARDWELL SUNDERLAND & KIENDL, General Counsel | New York, N. Y. |
| R. L. KOERPER, Executive Assistant | St. Paul, Minnesota |
| E. L. ORDELL, Comptroller | St. Paul, Minnesota |
| H. S. LATHAM, Treasurer | St. Paul, Minnesota |
| E. W. F. JOHNSON, Assistant Treasurer | St. Paul, Minnesota |
| RUSSELL H. DICK, Secretary | St. Paul, Minnesota |
| HUGH MCLEOD, Executive Assistant and Assistant Secretary | New York, N. Y. |
| RICHARD A. BEULKE, Assistant Secretary | St. Paul, Minnesota |

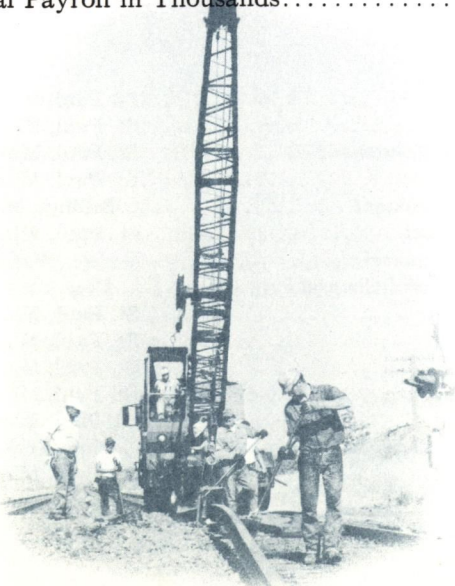
HIGHLIGHTS

For The Past Five Years

| (In Thousands of Dollars) | 1963 | 1962 | 1961 | 1960 | 1959 |
|-------------------------------|------------|------------|------------|------------|------------|
| Railway Revenues..... | \$ 204,472 | \$ 198,679 | \$ 188,416 | \$ 197,995 | \$ 206,665 |
| Railway Expenses..... | 190,216 | 186,608 | 179,753 | 185,287 | 184,094 |
| Other Income | 21,736 | 18,290 | 19,701 | 20,277 | 20,567 |
| Fixed Charges..... | 11,074 | 11,283 | 11,380 | 11,434 | 11,166 |
| Federal Income Taxes..... | 326 | (1,222) | 671 | 3,004 | 8,191 |
| Net Income..... | \$ 24,592 | \$ 20,300 | \$ 16,313 | \$ 18,547 | \$ 23,781 |
| Net Income Per Share..... | \$ 4.09 | \$ 3.39 | \$ 2.72 | \$ 3.10 | \$ 3.97 |
| Dividends Paid..... | \$ 14,106 | \$ 13,191 | \$ 13,184 | \$ 13,171 | \$ 11,960 |
| Dividends Paid Per Share..... | \$ 2.35 | \$ 2.20 | \$ 2.20 | \$ 2.20 | \$ 2.00 |

| | | | | | |
|-----------------------------------|------------|------------|-----------|------------|------------|
| Number of Shares..... | 6,009,373 | 5,995,550 | 5,993,233 | 5,989,529 | 5,985,591 |
| Number of Shareholders..... | 33,801 | 33,586 | 31,905 | 33,072 | 31,067 |
| Operating Ratio..... | 84.98 | 86.02 | 86.60 | 84.54 | 79.75 |
| Times Fixed Charges Earned..... | 3.22 | 2.80 | 2.43 | 2.62 | 3.13 |
| Taxes Per Share..... | \$ 2.94 | \$ 2.65 | \$ 2.92 | \$ 3.37 | \$ 4.26 |
| Working Capital in Thousands..... | \$ 67,505 | \$ 58,847 | \$ 61,570 | \$ 61,583 | \$ 65,890 |
| Average Number of Employees..... | 15,852 | 15,931 | 16,043 | 17,188 | 17,884 |
| Total Payroll in Thousands..... | \$ 102,390 | \$ 100,952 | \$ 99,203 | \$ 103,819 | \$ 105,571 |

(...) Credit.
See Notes to Financial Statements on pages 20 and 21.



THE PRESIDENT'S LETTER

There have been no significant developments in the merger proceedings during the past year. The next step is the filing of a proposed report and order by the Interstate Commerce Commission Hearing Examiner. A brief statement for the information of new stockholders appears on Page 16.

On March 28, 1963, the Interstate Commerce Commission issued an order prescribing higher divisions of joint through rates for Eastern and Mid-western Lines with a corresponding reduction for Western Lines effective July 1, 1963. This order, which has been appealed to the United States District Court, is discussed on Page 16 under litigation.

The arbitration board appointed pursuant to Congressional Legislation to arbitrate the two major issues of the dispute between the railroads and the five operating unions—firemen's jobs and crew consist—issued its award on November 26, 1963. Among other things, the award provided for the gradual elimination of 90% of the jobs of firemen on road freight and yard diesel locomotives with liberal protection for present employees. Further details and events leading up to the date of this report are covered on Page 8 under Work Rules.

Preliminary estimates for 1963 indicate that the railroad industry for the second consecutive year has recovered an increasing share of the intercity traffic previously lost to competing modes of transportation. This apparent reversal of the downward trend, the prospect for constructive transportation legislation by the Congress and the modernization of labor work rules adds up to a promising outlook for the industry.

We enter 1964 with prospects for a favorable year of operation. Financial position is strong and carloadings are running above 1963. Earnings for the early months of the year will benefit from the export of wheat to Russia, a movement in which Northern Pacific will participate. Results for the balance of the year will depend upon the level of agricultural production in our territory which cannot be predicted at this time because of the uncertainty of weather conditions during the critical growing season. We look forward to a relatively prosperous year with earnings sufficient to support the continuation of a property improvement program at 1963 levels.

I join with the Board of Directors in expressing appreciation to our stockholders and customers for their continuing support and confidence, and to the men and women of Northern Pacific whose efforts have made possible the favorable results achieved in 1963.

Paul MacFarlane
PRESIDENT

St. Paul, Minnesota, February 21, 1964

The year 1963 was a prosperous one for Northern Pacific with net income rising to a 20-year high of \$24,592,000, equivalent to \$4.09 per share. This is an increase of 21.14% over the \$20,300,000 — \$3.39 per share — reported for 1962.

Cash dividends of \$2.35 per share—four at the regular quarterly rate of 55¢ plus a 15¢ extra—were paid during the year.

The regular rate was increased from 55¢ to 60¢ per share and a 10¢ extra declared on December 12, 1963, both payable January 31, 1964. This increase in the regular rate follows a similar increase of 50¢ to 55¢ per share which became effective with the January payment in 1960.

Rail and non-rail operations both contributed to the favorable results achieved last year.

Freight revenue of \$160,837,000, up \$7,199,000 or 4.69% over 1962, was the highest since 1959. Better than average agricultural production in Northern Pacific territory for the second consecutive year was reflected in a heavy outbound movement of grain and inbound Manufactures & Miscellaneous items. In addition, revenue from the transportation of Products of Forests was up for the third consecutive year and approximated the record level established in 1959.

Passenger revenue was down \$1,379,000 or 17.59%. A sharp decline was expected following heavy passenger travel to the Seattle World's Fair in 1962.

The increase of \$5,793,000 in total railway revenues was, in part, reinvested in the property through an increase of \$3,335,000 in maintenance of way and structures expenses. Other items of operating expense did not vary materially from those of 1962. Transportation expenses in particular—those covering the cost of handling traffic at stations, in yards and over the road—were down in 1963 in spite of a larger volume of business.

Net other income before income taxes derived from non-rail operations reported on Page 19 was \$21,736,000 for 1963 as against \$18,290,000 for the year 1962. The increase of \$3,446,000 was due largely to revenue and expense changes in the Oil Development Department explained on Page 11, higher timber revenues and a reduction in property retirements which were heavy in 1962.

TRAFFIC AND REVENUES

Total railway revenues of \$204,472,000 in 1963 were \$5,793,000 or 2.92% above the \$198,679,000 for 1962.

Freight Revenue of \$160,837,000 for the year 1963 was \$7,199,000 or 4.69% above the 1962 level of \$153,638,000. The improvement over 1962 would have shown a further increase of \$1,600,000 had this amount not been deducted from freight revenue during the last six months of the year, in connection with the Interstate Commerce Commission decision in the Transcontinental Divisions Cases discussed on Page 16. The following graph shows the source of Northern Pacific 1963 freight revenue along with comparisons for the year 1962. These figures are before adjustment for pickup and delivery service, assumed switching and other charges.

Products of Agriculture, Products of Forests, and Manufactures & Miscellaneous items provide, in the aggregate, 85% to 90% of Northern Pacific annual freight revenue. Revenue from these primary sources was up in 1963 in varying amounts largely

because of the rising economy in our territory created by two consecutive years of above-average agricultural production.

The movement of grain was particularly heavy throughout the year. During the first half of the year there was a heavy volume moved from interior locations to terminal position. This movement continued during the balance of the year because of the stimulus provided by the rising price of cash grain, the prospects of sale of wheat to Russia, and the lower seasonal grain rates which became effective November 1, 1963.

Manufactures & Miscellaneous items, accounting for 38.43% of 1963 freight revenue, were up 2.84% over 1962. The largest gain was in automobiles moving by multi-level rack and by trailers on flatcars. This traffic produced revenue of \$4,196,000 in 1963, up 30.1% or \$972,000 over 1962. Additional bi-level and tri-level equipment is being acquired to provide for the anticipated increase in this type of movement.

The movement of Forest Products produced \$47,349,000 of freight revenue in 1963 which approximates the record high of \$48,538,000 in 1959. The increase of 3.19% or \$1,464,000 over 1962 was

due to a continuing high level of demand for lumber and related items, higher revenue per car as a result of heavier loading at incentive rates and a relatively better car supply in 1963 compared to 1962—a year of critical shortage of wide-door box cars.

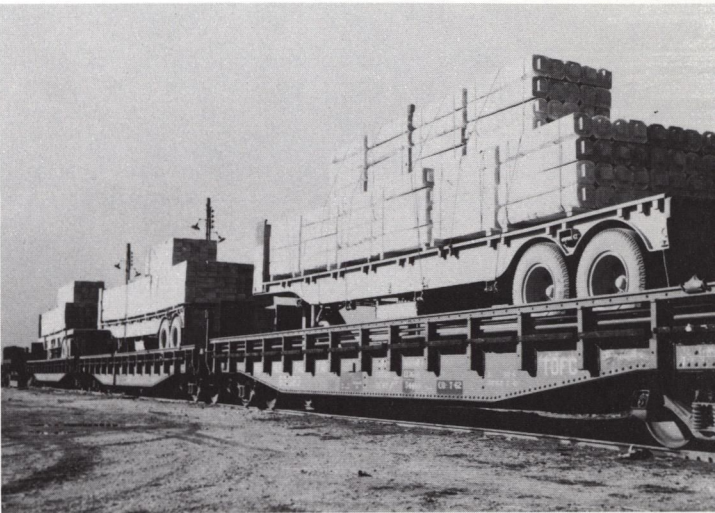
Trailer-On-Flatcar traffic continues in a rising trend with an increase of 17.5% in trailer loads and a 22.5% increase in tonnage handled in 1963 over the preceding year. Equipment added to the TOFC fleet in 1963 included 35 refrigerated and 10 flatbed trailers.

Faster Freight Service—The most significant step in Northern Pacific's continuing program of improving service to shippers was taken on October 27, 1963, with a 24-hour reduction in delivery time at western terminals. Delivery of freight out of Chicago destined for Seattle, Tacoma, Portland and other West Coast cities is now being made in 60½ hours. This closely approximates the 58 hour and 50 minutes time of the "Mainstreeter," one of Northern Pacific's transcontinental passenger trains operating between Chicago and Seattle. A similar reduction in delivery time for eastbound service became effective February 3, 1964.

Freight Rates—The control of costs is a matter of major concern to all business. One of the many items of cost is the price of transportation. The buyer of transportation will select the lowest cost service that will meet his requirements. At the same time, the seller of transportation will price the service at a level which will attract sufficient volume to return a profit. One of the major activities of the Traffic Department is a continuing review of freight rates and the volume of traffic that is moving at these rates. Where volume and resulting profit can be increased by reducing the rate, an appropriate adjustment is made.








While many rate adjustments were made in 1963, there were two of particular interest. A seasonal reduction in grain rates was made on grain moving from North Dakota to Minneapolis-St. Paul and Duluth-Superior during the period November 1 to May 31. This adjustment was made in order to reduce the peak demand during the harvest period, a time when box car shortages frequently occur resulting in large tonnages of grain being moved by truck. The lower rates in effect through the winter and spring provide an incentive to ship during this period when equipment is more readily available. As a result, grain moving by rail is expected to increase.

Efforts are being made to place midwest wheat and corn at West Coast ports at a competitive price



Three trailer loads of Montana timber products are moved out from a loading ramp to contribute to Northern Pacific's 46,000-ton increase in Trailer-on-Flat-Car traffic in 1963, the largest of nine consecutive increases since the service was inaugurated in 1954. The 22.5 per cent advance was higher than that for the railroad industry as a whole.

GROSS FREIGHT REVENUE 1963-'62

| | Millions 01530456075 | | | | | | INCREASE OR (DECREASE) | |
|---|----------------------|--|--------------|--|--|--|------------------------|---------|
| | | | | | | | AMOUNT | PERCENT |
|  PRODUCTS OF AGRICULTURE | | | \$35,327,000 | | | | \$4,915,000 | 16.16 |
| | | | \$30,412,000 | | | | | |
|  ANIMALS AND PRODUCTS | \$2,974,000 | | | | | | (344,000) | (10.37) |
| | \$3,318,000 | | | | | | | |
|  PRODUCTS OF MINES | \$12,683,000 | | | | | | 879,000 | 7.45 |
| | \$11,804,000 | | | | | | | |
|  PRODUCTS OF FORESTS | | | \$47,349,000 | | | | 1,464,000 | 3.19 |
| | | | \$45,885,000 | | | | | |
|  MANUFACTURES AND MISCELLANEOUS | | | \$63,301,000 | | | | 1,748,000 | 2.84 |
| | | | \$61,553,000 | | | | | |
|  FORWARDER TRAFFIC | \$1,987,000 | | | | | | (379,000) | (16.02) |
| | \$2,366,000 | | | | | | | |
|  LESS-THAN-CARLOAD | \$1,093,000 | | | | | | (31,000) | (2.76) |
| | \$1,124,000 | | | | | | | |

which would be attractive to Japanese importers. A step in this direction was made in December, when a special export rate on corn was placed in effect. It is expected that substantial tonnages will move to the West Coast under this rate.

Passenger Revenue of \$6,461,000 for 1963 was down \$1,379,000 or 17.59% from 1962. A sharp decline was anticipated after revenue reached a 16 year high in 1962 because of heavy passenger travel to the Seattle World's Fair.

A growing interest in the New York World's Fair, which is general throughout our territory, should be reflected in higher passenger revenues in 1964 and 1965.

Industrial Development—As newly established industries and expansion of existing industries produced additional traffic for Northern Pacific during 1963, the Company continued to acquire property at strategic points for future development. Of particular importance was the addition of a 49-acre tract at Kent, Washington, making a total of 242 acres in this development which was opened in November 1963 as the Norpac Industrial District. This new district will eventually represent an investment of more than \$1 million by Northern Pacific. Tradewell Stores, Inc., major wholesale grocery distributor in Washington and Oregon, will be the first tenant and



The new Douglas concentrating mill of Montana Phosphate Products Company will supply more than 300,000 tons of raw material a year for the manufacture of fertilizers. At the top of the picture are the gracefully curving rails of a new 5.2-mile spur, which will carry covered hopper cars loaded with concentrated phosphatic ore to a connection with Northern Pacific main line trains.

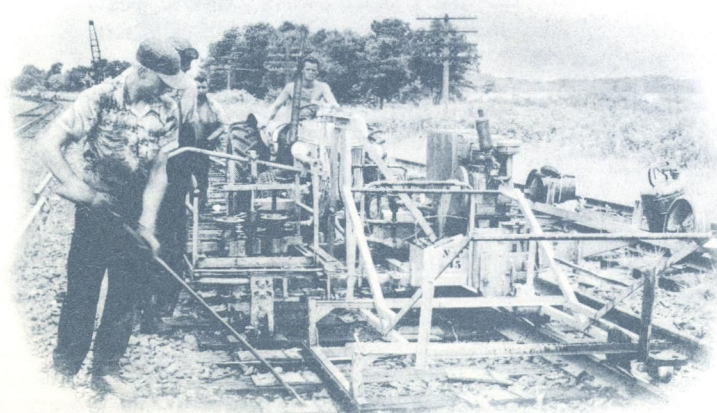
will construct a \$2.5 million general office and distribution center on an 8-acre site.

During the past year, 133 new industries were established adjacent to Northern Pacific trackage and 35 were removed for a net increase of 98. A total of 59 traffic producing industries spent more than \$100,000 each in plant location or expansion in 1963.

A significant development in 1963 was the location of a new sugar plant in the Red River Valley. Amer-

ican Crystal Sugar has under construction an \$18 million plant on an 826-acre site just north of Drayton, North Dakota. This plant, which is scheduled for completion in the Fall of 1965, will be an important source of traffic since it will be served exclusively by Northern Pacific. It is estimated that the inbound movement of sugar beets, coal and lime rock, and the outbound movement of finished sugar, molasses and beet pulp for livestock feed will increase Northern Pacific freight revenues by approximately \$1 million annually.

During 1963, Montana Phosphate Products Company began the construction of a \$6 million mining and milling project on the Philipsburg branch of the Northern Pacific, about 60 miles northwest of Butte, Montana. Phosphate rock will be reduced to a concentrate amounting to 300,000 tons annually which will be hauled by Northern Pacific to Trail, British Columbia for further processing into fertilizer by the Consolidated Mining and Smelting Company of Canada, Ltd. Northern Pacific has acquired 120 100-ton covered hopper cars which will be assigned to this movement. It is expected that the output of this plant will add approximately \$1 million annually to Northern Pacific freight revenue.



A string of giant 100-ton covered hopper cars, part of a purchase of 120, roll through Northern Pacific's Northtown yard near the Twin Cities, enroute to Montana, where they will be placed in continuous service hauling ore for Montana Phosphate Products Company to a British Columbia fertilizer plant.

The method of distributing bulk cement in Northern Pacific territory is undergoing change. Cement manufacturers are now shipping bulk cement by rail from the point of manufacture to distribution points where final delivery is made to construction sites by truck. At Dickinson and Bismarck, North Dakota, Permanente Cement Company has established facilities for the handling and distribution of bulk cement shipped by rail over Northern Pacific from its Montana plant located at Helena. Universal Atlas Cement, a division of United States Steel Corporation, has also set up distribution facilities on Northern Pacific trackage at Fargo, North Dakota. The rail haul to Fargo originates at Duluth, Minnesota. It is expected that relatively small cement movements previously made by truck from the point of manufacture to the job site will now move by rail as far as these distribution points. As a result, an increase in the rail movement of cement is anticipated.

The electric light and power industry in Northern Pacific territory is expanding its steam generating capacity in order to keep abreast of the growing demand for service. Ottertail Power Company is spending \$11 million at Fergus Falls, Minnesota, and Montana Dakota Utilities Company, \$10.5 million at Mandan, North Dakota, for additions to steam electric generating plants using lignite coal for fuel. With the added generating capacity, coal requirements will increase and, as a result, Northern Pacific

freight revenue will benefit accordingly. Basin Electric Power Cooperative began construction of a \$36 million steam plant in 1963 on the Missouri River near Stanton, North Dakota. This plant will have a capacity of 200,000 kw. and is expected to burn approximately 1,200,000 tons of lignite annually.

Agriculture—For the second consecutive year growing conditions, with few exceptions, were unusually favorable throughout our territory.

Grain production in North Dakota was the largest in the history of the state in spite of the second smallest acreage planted to major grains since 1939.

Production for most crops in Montana was up over 1962 with an increase of 15% in wheat—the largest crop since 1958.

In spite of below normal precipitation during the growing season in our West End territory, the combined effect of increased acreage, below normal temperatures and satisfactory reserve moisture produced high yields. Wheat production in the state of Washington—the third largest on record—was up 14% over 1962.

An increase in the harvested acreage of sugar beets, plus favorable growing conditions, produced new records in acre yields and total tonnage. Minnesota production was up 49%, North Dakota 24%, Montana 39% and Washington 12%.

Potato production in the Red River Valley of North Dakota and Minnesota in 1963 was about the same as 1962. This was also true for the state of Washington.

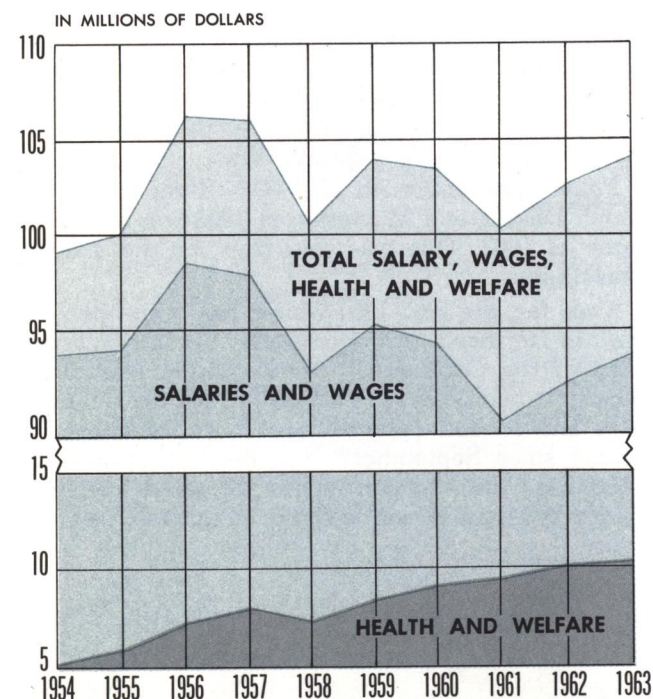
Thus far, the 1963-1964 winter has been open and mild in Northern Pacific territory. Surface moisture west of the Continental Divide ranges from satisfactory to good. East to the Twin Cities top soil moisture and subsoil reserves are short. Moisture received since September 1 has been sharply below normal for this portion of our territory. Precipitation in the form of rain or snow will have to be above



average during the next few months if adequate moisture is to be provided prior to the start of the 1964 growing season. Irrigated lands in the Columbia Basin are expected to reach a total of 375,000 acres in 1964 — an increase of 11,600 acres over 1963.

RAILWAY EXPENSES

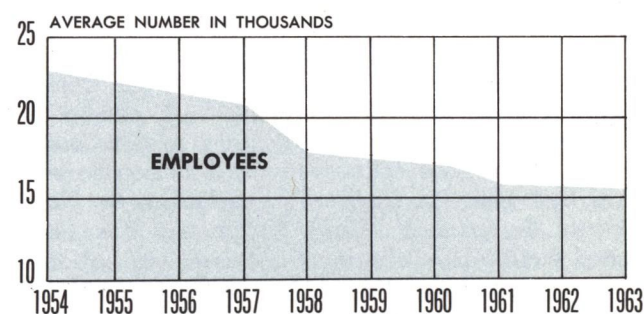
Total railway expenses of \$190,216,000 for 1963 were \$3,608,000 greater than 1962. The principal items responsible for this overall increase were maintenance of way and structures expense, up \$3,335,000, and equipment rents, up \$1,000,000. The variation in other expenses listed by major classification in the income account on Page 19 was relatively small. Transportation expense in particular, which is the largest single item of operating expense, was slightly below 1962 in spite of the increased volume of business handled in 1963.



Wages—While higher wage rates granted in 1962 were fully reflected in payrolls for the past year, there was no significant change in rates made during the year 1963. However, all labor organizations have served notices requesting an increase in wage rates in varying amounts as well as health, welfare and other benefits. These requests are being negotiated on a national basis.



Careful selection of premium baking potatoes is one of the few hand operations in the new and highly automated Baker Produce Company plant at Kennewick, Washington. Fast handling and shipping highlight the Baker operation, but gentle human hands are used in certain steps of the process to insure against product damage. "Baker Beauties," such as those in the picture, are featured on Northern Pacific dining cars as the "Great Big Baked Potato."



Work Rules—In the last Annual Report reference was made to the dispute between the railroads and their employees with respect to work rules and practices. On March 4, 1963, the Supreme Court of the United States affirmed the judgment of the United States Court of Appeals for the Seventh Circuit which upheld the right of the railroads to make changes in outmoded work rules and practices.

This decision was followed by a series of unsuccessful negotiations pursuant to the Railway Labor Act. As a result, the President, on April 3, 1963, appointed Emergency Board No. 154 which, on May 13, 1963, submitted its report and recommendations for an adjustment of the issues. The railroads again accepted and the labor organizations rejected this report as they had the February 26, 1962 report of the Presidential Railroad Commission.

Confronted with a nation-wide railway strike, Congress, at the urgent request of President Ken-

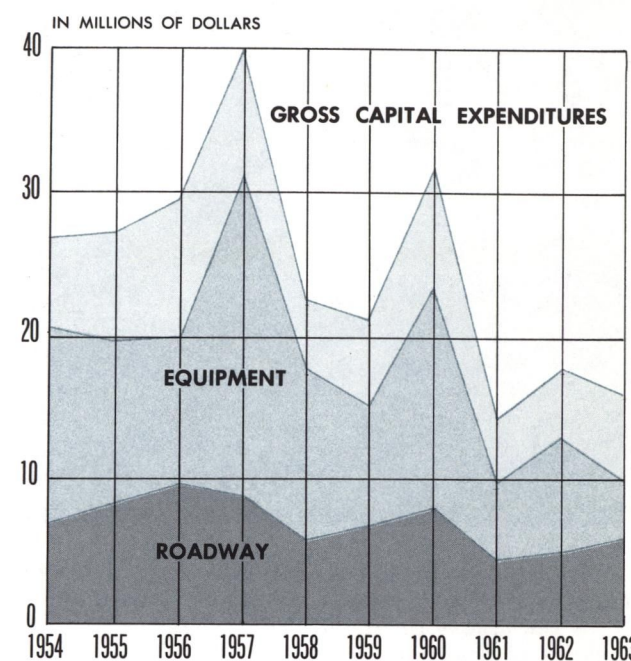
nedy, passed Public Law 88-108, effective August 28, 1963, which prohibited such a strike. It authorized the creation of a seven-man arbitration board to pass upon two issues; namely, the need for firemen in freight service and the size and composition of train crews. The remaining or secondary issues involving pay structure, interdivisional runs, road and yard crew work rules, and manning requirements for self-propelled work equipment were left for negotiation between the parties.

On November 26, 1963, the board filed its award in which it found that firemen were not required in yard or freight service and directed that no change be made in the size of train crews except by agreement. Again, the railroads announced their willingness to accept this award; however, the labor organizations involved, appealed the award to the United States District Court for the District of Columbia which, on January 8, 1964, upheld the award. On February 20, 1964, the United States Circuit Court of Appeals affirmed the order of the District Court. The labor organizations announced they would appeal this decision to the United States Supreme Court.

By the terms of the statute the order of the board is to become effective for a two-year period com-



This 420-foot tower at View Park, Washington, near Seattle, and 6-foot parabolic antenna in Portland, Oregon, are part of the latest addition to Northern Pacific's advanced communications complex. A 178-mile transistorized microwave facility, installed in 1963 between Portland and Seattle, links these points and other North Pacific Coast stations to the company's 2,000-mile transcontinental dial telephone system, which originates in the Twin Cities.



mencing January 25, 1964. In the meantime negotiations have proceeded on the so-called "secondary issues." Public Law 88-108 prohibits a strike until February 24, 1964. Thus, if the secondary issues are not resolved by that date, the labor organizations will be free to strike.

Four of the states in which the Northern Pacific operates; namely, North Dakota, Oregon, Washington and Wisconsin, have statutes which prescribe the consist of train crews. These statutes, which were enacted long prior to the technological evolution that has produced such far-reaching changes in our industry, require a fireman on all trains. Unless and until these statutes are either repealed or held unconstitutional by the courts, your company will be unable to change the consist of its train crews in said states.

ADDITIONS AND IMPROVEMENTS

Gross expenditures charged to capital account for roadway and equipment for the year 1963 amounted to \$15,672,000 as against \$17,386,000 for 1962.



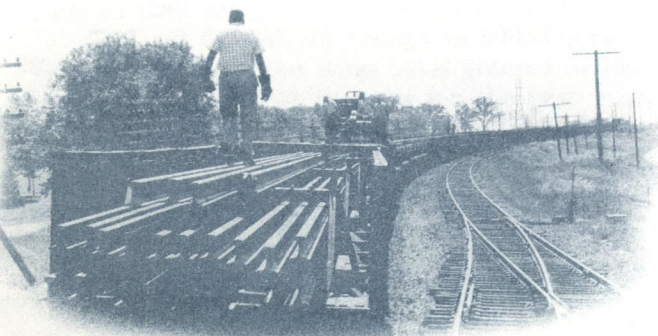


Welders lay out the components of another box car underframe as new freight equipment continues to roll off the assembly line at NP's modern carbuilding shops at Brainerd, Minnesota. The 460 box cars built here in 1963 brought to more than 14,000 the number of various kinds of freight cars assembled at this plant since its opening in 1946.

Roadway expenditures for 1963 of \$5,853,000, which compares with \$4,939,000 in 1962, were the largest since the 1960 program of \$8,054,000.

The laying of 99.1 miles of new rail in 1963 was substantially in excess of the 30 miles and 35.3 miles laid in 1961 and 1962, respectively. The 1963 program included 87.2 miles of welded rail, bringing the total of this type of rail in track to 402.1 miles.

The 70-mile segment of Centralized Traffic Control between Kootenai, Idaho and Spokane, Washington, commenced in 1962, was completed last year, bringing CTC in service to a total of 415 miles. Additional CTC covering 12 miles between Billings and Huntley, Montana, is under construction with completion scheduled for 1964.



Equipment expenditures charged to capital account in 1963 amounted to \$9,819,000 as against \$12,446,000 in 1962. The following new equipment was placed in service in 1963 at a cost of \$8,113,000:

| Type | Quantity | Description |
|------------------------------|----------|---|
| Box Cars | 436 | 50½' double door, roller bearings |
| Box Cars | 25 | 50½' single plug doors, roller bearings, cushion underframe |
| Mechanical Refrigerator Cars | 25 | 57' load dividers, roller bearings, cushion underframe |
| Flat Cars | 25 | 53½' end bulkhead, roller bearings |
| Covered Hopper Cars | 25 | 2136 cu. ft., roller bearings |
| Covered Hopper Cars | 15 | 4000 cu. ft., roller bearings |
| Cabooses | 5 | Specially Equipped |
| Auto Racks | 34 | Tri-level |
| Auto Racks | 9 | Bi-level |
| Baggage Cars | 10 | 73' 10", lightweight, roller bearings |

In addition, secondhand light-weight passenger cars consisting of three coaches, three combination baggage-lounge cars and one Budd Type RDC-3 diesel electric mail-baggage-coach were acquired during the year. This equipment, with the exception of the baggage-lounge cars, was rehabilitated and placed in service at a total cost of approximately \$315,000. The baggage-lounge cars will be converted into day-night coaches as a part of the 1964 program.

Equipment designed to meet the special needs of Northern Pacific shippers represents a substantial portion of annual requirements. This and other equipment, scheduled for 1964 delivery at an estimated cost of \$17,797,000 is listed below.

| Type | Quantity | Description |
|------------------------------|----------|---|
| Refrigerator Cars | 200 | 50' insulated, load dividers, cushion underframe, roller bearings |
| Box Cars | 300 | 50½' double door, roller bearings |
| Flat Cars | 50 | 53½' end bulkhead, roller bearings |
| Covered Hopper Cars | 120 | 2604 cu. ft., roller bearings |
| Covered Hopper Cars | 25 | 4000 cu. ft., roller bearings |
| Covered Hopper Cars | 25 | 2600 cu. ft., airslide, roller bearings |
| Hart Selective Service Cars | 200 | 3400 cu. ft., roller bearings |
| Mechanical Refrigerator Cars | 75 | 50¾' load dividers, roller bearings, cushion underframe |
| Auto Racks | 10 | Bi-level |
| Auto Racks | 10 | Tri-level |
| Diesel Locomotives | 15 | Road-Switchers, 2500 h.p., 6-motor |

OTHER OPERATIONS AND INCOME

Gross revenues from non-rail operations are listed by principal source on Page 19 under Other Income. The total for the year 1963 amounted to \$27,525,000 representing an increase of \$1,971,000 or 7.71% over 1962. The improvement was due largely to a change in accounting methods adopted by the Oil Development Department during the year and higher revenue from the sale of timber.

Total expenses of \$5,789,000 applicable to non-rail operations were down \$1,475,000 from 1962. The decline was due in part to a drop in oil development expenses and in part to a reduction in property retirements which were particularly heavy in 1962. The following review covers the principal non-rail activities for the year 1963.

OIL DEVELOPMENT

Oil Development accounting procedures were changed in 1963 and as a result there has been a significant impact upon reported earnings as well as comparisons with prior years.

In the past, accounting has been on a cash basis by recording revenues when received and expenses when paid. Since Interstate Commerce Commission regulations require that we change to an accrual basis of recording oil revenues when earned and expenses when incurred, without regard to the actual receipt or disbursement of cash, our accounting procedures have been changed accordingly.

Gross revenues for 1963 covering 13 months on the accrual method of accounting were \$8,398,000, for 12 months on a cash basis \$7,797,000, and \$7,964,000 for the year 1962. Expenses for 13 months were \$2,201,000, for 12 months \$2,089,000, and \$2,761,000 for 1962.

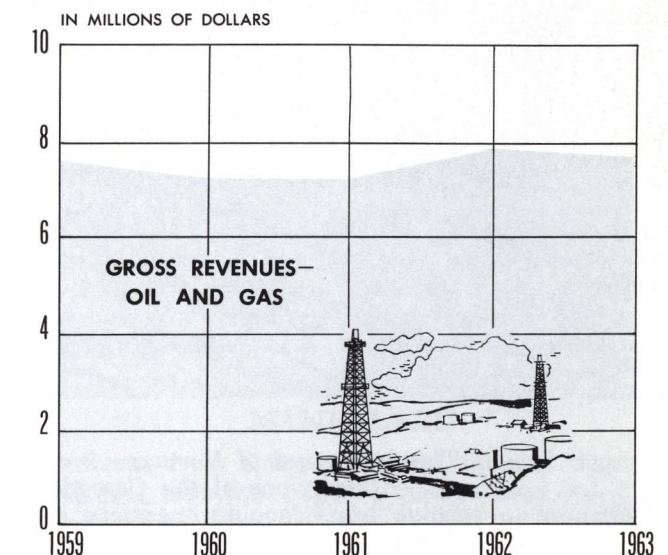
Results for 1963 for the 12-month period are given in the accompanying table and graph in order that comparisons with prior years can be readily made on the same basis.

By reference to the following table, it may be noted that 1963 gross revenues on a 12 month basis were somewhat lower than those of 1962. This was due to a decline in production from the record level established in the year 1962. Expenses were down primarily because of no significant development costs in 1963 as against such costs of \$1,284,000 in 1962 when heavy expenditures were made in the development of 27 wells in the Lookout Butte field. Charges to capital account for lease and well equip-

ment, not included in the expense section of the table, amounted to \$319,000 in 1963 and \$752,000 in 1962.

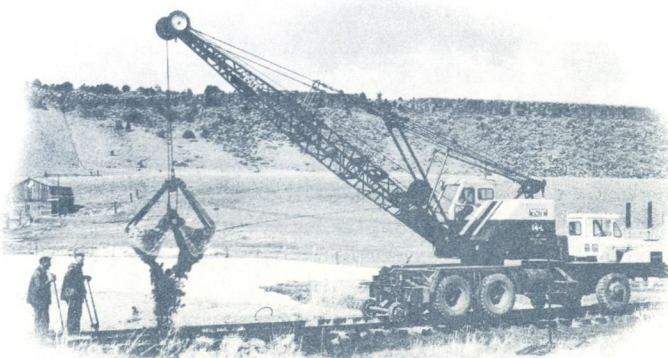
| Year | Gross Revenue | *Expenses | Net Income Before Federal Income Taxes |
|------|---------------|-------------|--|
| 1959 | \$7,619,000 | \$1,926,000 | \$5,693,000 |
| 1960 | 7,387,000 | 2,155,000 | 5,232,000 |
| 1961 | 7,383,000 | 1,938,000 | 5,445,000 |
| 1962 | 7,964,000 | 2,761,000 | 5,203,000 |
| 1963 | 7,797,000 | 2,089,000 | 5,708,000 |

*Does not include allocation of interest on funded debt, real property taxes and certain general office overhead costs.



The Company's total net production from Williston Basin, Wyoming, and central Montana fields was 2,905,000 barrels in 1963, compared with a record high of 3,034,000 barrels in 1962. On December 31, 1963, Northern Pacific had an interest in 819 producing oil wells, 474 in the Williston Basin. New wells, less abandonments, resulted in a net increase of 53 wells during the year.

Twenty-one exploratory wells were drilled during 1963 with two of them resulting in Williston Basin





This is a stand of Northern Pacific timber, overlooking Lake Keechelus on the eastern slope of the Cascades in West Central Washington. Shown is a "high lead" logging operation in which felled logs are being skidded to a central loading site for transport to processing mills.

discoveries. The Spring Lake discovery drilled by McAlester Fuel Company in northeastern Montana, which was referred to in the last Annual Report, was completed as a producer in 1963. Four wells — Northern Pacific participates in the production from three — have been drilled in this field, the limits of which have not yet been determined. Although no dry holes have been drilled in the Spring Lake field, rapid pressure declines and substantial reduction of flow rates in the completed wells indicate limited areal extent of the reservoir.

A deeper pool wildcat, completed by Amerada Petroleum Corporation in the Scoria field of southwestern North Dakota, opened up a new pay zone in the Ordovician-Red River formation. Production from this formation in the discovery well has been sub-commercial, and a second well, drilled to the formation at an offsetting location, failed to confirm the discovery. Further evaluation of the formation is not expected at this time.

An apparent discovery had been made at year-end by Shell Oil Company and Northern Pacific in the

South Wills Creek area on the east side of the Cedar Creek Anticline, some 15 miles northwest of Baker, Montana, when oil was recovered during a drill stem test. The oil appears to be from a stratigraphic accumulation in Silurian zones. Additional study will be necessary to formulate a development program after the well is completed. At present, the find does not appear to be of major significance.

At year-end, one development well and two exploratory wells were being drilled. Three development wells were being completed as apparent producers, and three exploratory wells were required to be drilled under existing agreements.

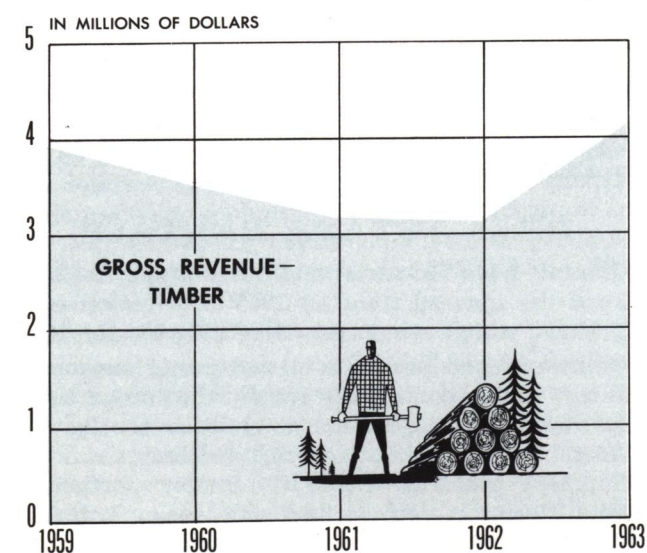
The geophysical exploration program being conducted by The Superior Oil Company and Northern Pacific in the Montana portion of the Williston Basin, which was referred to in the Annual Report for 1962, is scheduled for completion early in 1964. The seismic coverage which was obtained in 1963 isolated several potentially favorable drill sites. It is expected that the first Superior-Northern Pacific exploratory well will be commenced in the summer of 1964.

The Cabin Creek waterflood project was started in the last quarter of 1963, and the full-scale waterflood should be operative late in the first quarter of 1964. Increase in production from this secondary recovery program is expected to become significant in 1965. Engineer estimates indicate 12,400,000 additional barrels of oil will be recovered during the life of the field through this program. On this basis, Northern Pacific's share of the additional production should amount to 5,100,000 barrels.

There has been an increase in geophysical exploration during 1963 in the area in which Northern Pacific ownerships are located. It is expected that the results of this preliminary exploration will lead to increased drilling in 1964. A slight decline in Northern Pacific net production is expected in 1964 resulting in a corresponding decline in income.

TIMBER

Gross revenue of \$4,237,000 received from the sale of timber in 1963 was up \$995,000 over the \$3,242,000 reported for the preceding year. The improvement was due to the combined effect of an increase in average price of \$2.50 per thousand board feet and an increase in cut which rose from 280 million board feet in 1962 to 306 million in 1963. The higher price as well as the larger cut was due, in part, to the salvage of timber of higher than average value, which was blown down in the Columbus Day storm in the Fall of 1962.



The Annual Report for the year 1962 referred to an agreement between Northern Pacific and the United States Forest Service on a master plan providing for the sharing of the cost of road construc-

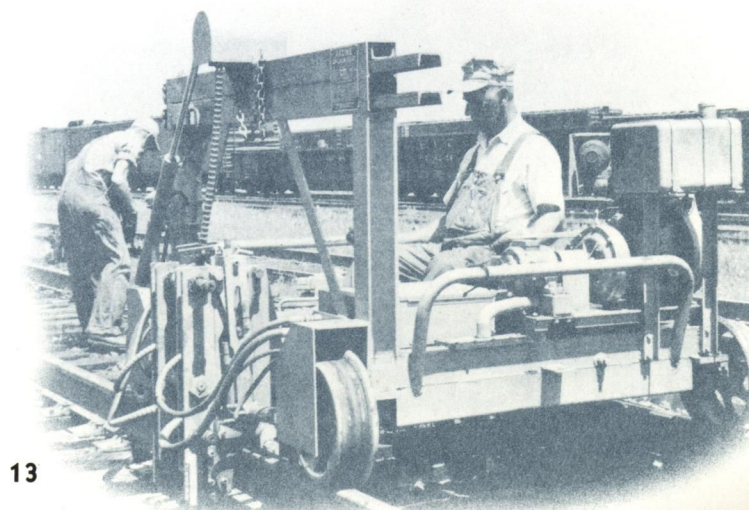
tion into the ownerships of both parties. During 1963, 16 separate cost-sharing agreements were completed with the Forest Service, some of which included third parties. In the areas involved, Northern Pacific now has permanent access to its ownerships on all roads whether constructed on company, public or third party lands. As a result, Northern Pacific foresters will now be able to actively manage these areas in accordance with sound forestry methods, a practice previously denied because of inaccessibility.

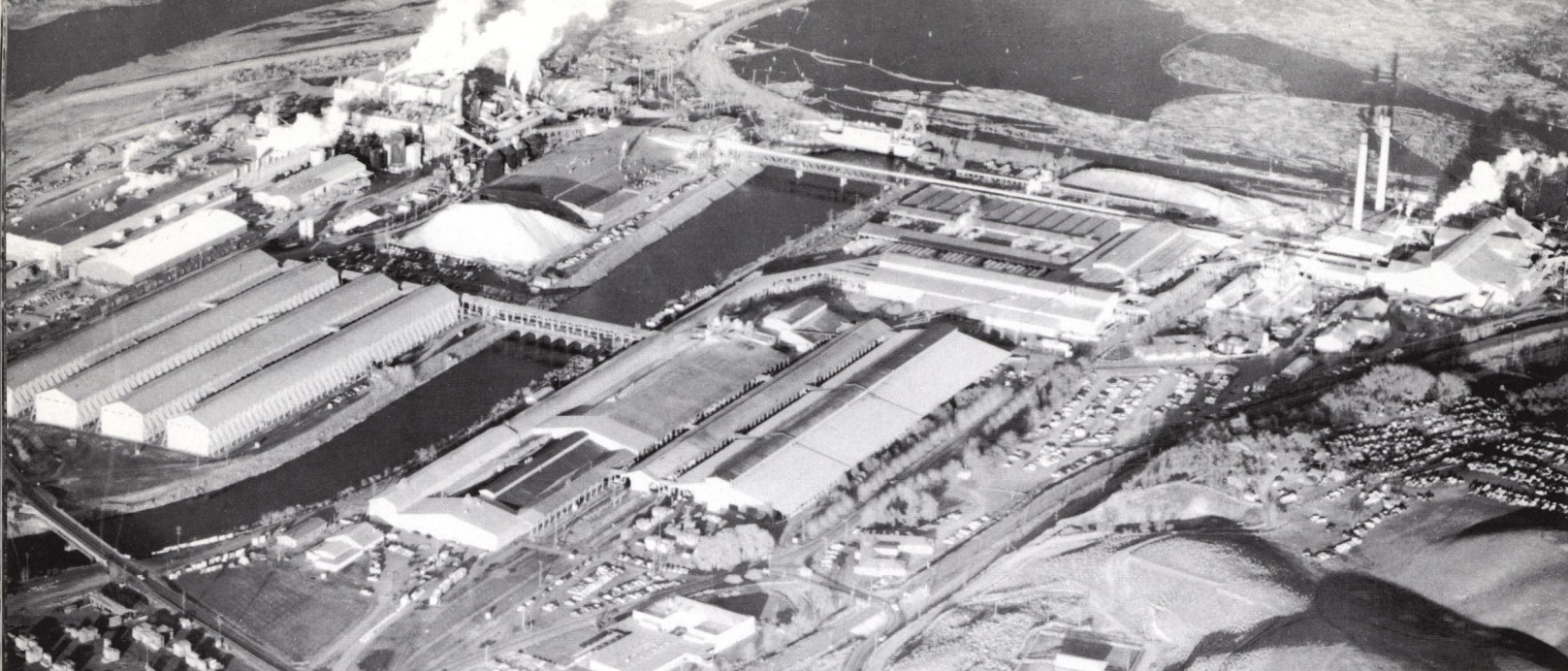
Through a program of multiple use of forested areas, Northern Pacific shares the recreational value of its lands with others. Hunting, fishing and camping are permitted except when the Forest Service prohibits access during periods of high fire hazard. With the increasing demand for cabin sites in forested areas, Northern Pacific is taking steps to develop some of its more attractive areas for this purpose. During 1963, development was started at a number of locations in western Montana, Idaho and Washington. These areas are leased to others under agreements which permit the Company to continue to grow, harvest and manage its adjoining lands.

MINERALS

Income from Company-owned mineral deposits, including industrial minerals such as sand and gravel, increased from \$407,000 in 1962 to \$526,000 in 1963. Iron ore and taconite royalties continue to provide the major source of mineral income.

As of December 31, 1963, Northern Pacific discontinued its coal operations in the Roslyn Field near Cle Elum, Washington. These mines were opened in 1886 and were operated continuously for a period of 78 years. In the earlier years of operation, the coal was used principally for coal-fired steam locomotives on the Northern Pacific although there





A vast modernization and expansion program is going forward at the Lewiston, Idaho plant of Potlatch Forests, Inc. This is a completely integrated operation, producing a wide range of forest products.

was a considerable commercial business. However, with the advent of the diesel engine and the increasing use of competing fuels, production dropped sharply and unit mining costs rose accordingly. During recent years, coal sales have been made to electric power plants, cement plants and the Hanford works of the Atomic Energy Commission at Hanford, Washington.

From time to time proposals have been made to erect a steam electric generating plant in the Roslyn Coal Field. Because of the strategic location of this field, the output of such a plant would be used to firm up hydroelectric power in the Pacific northwest. While it is expected that steam electric generating plants will eventually be built in this area, as in other hydroelectric areas in the United States, there are no definitive plans at the present time.

During 1963, Northern Pacific's Geology Division completed a three-year study of a lignite coal field lying west of Dickinson, North Dakota, which covers an area approximating 155 square miles. Knowledge

of this area had been limited to old reports and maps which had been developed during the 1920's. The recent Northern Pacific report, using modern geologic exploration techniques, is based upon photogeologic mapping, analyses of drill cores and the economics of low-cost strip mining methods. Reserves in the Dickinson Field are conservatively estimated at 750 million tons which lie within 75 feet of the surface. Copies of this report have been made available to coal, chemical and other companies which might have an interest in an extensive reserve of solid fuel.

The Basin Electric Cooperative steam electric plant referred to on Page 7 under Industrial Development, will consume 1,200,000 tons of lignite annually. We will receive royalty payments on a portion of this coal which will be furnished from Northern Pacific ownerships.

REAL ESTATE RENTALS

Rentals from industrial and other properties continued the upward trend in 1963 with revenues of \$2,445,000 which compares with \$2,363,000 for 1962.

Railway lands located in or near major metropolitan centers are continually reviewed in order to assess their economic income potential in the light of current residential, commercial and industrial development patterns. While the major portion of rental income is derived from the lease of railroad lands for industrial and commercial purposes, a growing source of additional income is from miscellaneous leases such as, motels, restaurants, banks, department stores, super markets and parking lots. All leases are periodically re-appraised and the rentals adjusted in line with property values.



Providing special equipment for specialized freight service — such as this NP Transport Company bulk cement tanker — enables Northern Pacific not only to attract new business, but to keep abreast of customer needs in the rapidly changing evolution of modern industry.

AFFILIATED AND SUBSIDIARY COMPANIES

Chicago, Burlington & Quincy Railroad Company reported net income of \$21,368,000 or \$12.51 per share for 1963 as against \$20,413,000 or \$11.95 per share for 1962. Estimated Federal Income tax deferments arising from the use of new methods of depreciation including guideline depreciation and the 7% investment credit amounted to \$8,430,000 for 1963 — \$4.93 per share — and \$5,212,000 — \$3.05 per share — for 1962.

Dividends of \$7.50 were paid during the year. This amounted to a payment of \$6,226,000 to Northern Pacific on its 48.59% ownership of Burlington stock. Northern Pacific's equity in the undistributed income of the Burlington was \$4,157,000 equivalent to \$0.69 per share of Northern Pacific shares outstanding as of December 31, 1963. The Burlington Income account appears on Page 24.

Spokane, Portland & Seattle Railway Company, the capital stock and bonds of which are 50% owned by the Northern Pacific, reported net income of \$2,197,000 for 1963 as against \$717,000 for

1962. Estimated Federal Income tax deferments arising from the use of new methods of depreciation including guideline depreciation and the 7% investment credit amounted to \$418,000 for 1963 and \$300,000 for 1962.

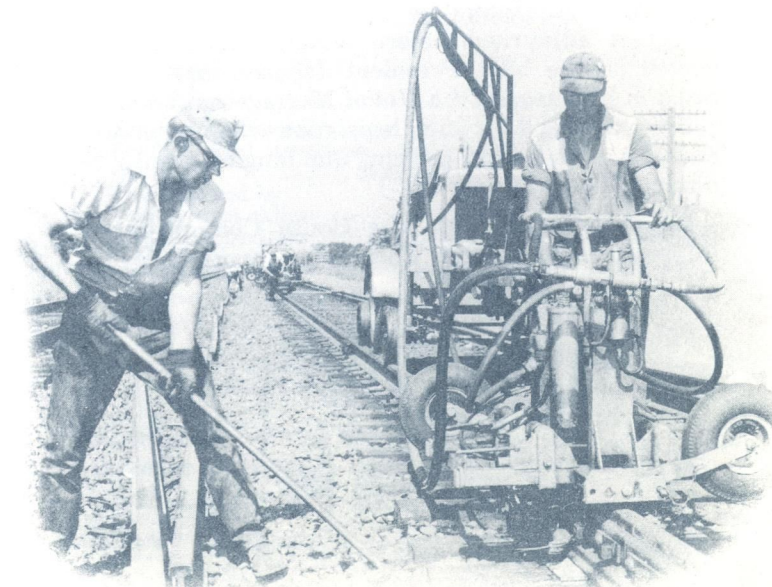
No dividends were paid during the year. Northern Pacific's equity in the 1963 earnings of the SP&S amounted to \$1,098,000 or 18¢ per share of Northern Pacific shares outstanding as of December 31, 1963.

In 1963 Northern Pacific received \$1,084,000 as interest on SP&S First Mortgage bonds. The SP&S purchased from the Northern Pacific, at the cost to the latter, \$1,500,000 par value of its First Mortgage 4% bonds, thereby reducing the Northern Pacific investment therein from \$19,148,000 to \$18,098,000.

Northern Pacific Transport Company, wholly owned highway subsidiary of the Railway Company operates over 5,730 route miles in the States of Montana, Washington, Idaho and Oregon.

The Transport Company is a common carrier of freight by motor vehicle in the States of Montana and Washington. In addition a number of services are provided for the Railway Company. These include an expedited highway service for Railway less-than-carload shipments, a highway bus service for communities on certain railway company branch lines and a pickup and delivery for Railway Company freight including the handling of TOFC trailers at principal cities and terminals.

Gross revenues were \$5,133,000 for 1963 and \$4,253,000 for 1962. Net income was \$616,000 and \$184,000 respectively.



MATTERS OF INTEREST

Merger—There have been no significant developments since our last Annual Report involving the proposed merger of the Northern Pacific, Great Northern and Burlington into the Great Northern Pacific & Burlington Lines, Inc., a new corporation, which would lease the Spokane, Portland and Seattle Railway Company.

For the benefit of our new stockholders, hearings were completed in Minneapolis on July 10, 1962, and briefs were filed by the applicants and other interested parties on January 4, 1963. The next step will be the filing of a proposed report and order by the Hearing Examiner. It is anticipated that this report and order will be filed early in 1964. Thereafter, a period of at least 30 days will be allowed by the Commission for the filing of objections to the report and in due course the case will be set by the Commission for oral argument and decision. After the Commission rules, any party to the proceeding will have the right to appeal to the courts.

Federal Legislation—In our last Annual Report, reference was made to the unfair regulatory burden under which the railroad industry operates and the critical need for legislation to correct such condition. President Kennedy, on March 5, 1963, requested such legislation and as a result H.R. 4700 and S. 1061 were introduced which exempt all common carriers from regulation of minimum rates when carrying agricultural and fishery products or bulk commodities. While hearings were concluded by the Senate Committee on Commerce and the House Committee on Interstate and Foreign Commerce, Congress adjourned before either committee reported on the bills. President Johnson also recognized in his State of the Union Message on January 8, 1964, the need for such legislation when he stated that Congress should reform "our tangled transportation and transit policies."

On February 6, 1964, the House Committee on Interstate and Foreign Commerce reported favor-

ably a new bill designated H.R. 9903. This bill, among other provisions, extends to all common carriers the exemption now applicable to the transportation of agricultural commodities and fishery products by motor carrier. While it does not exempt the railroads from regulation when carrying bulk commodities, it does restrict the bulk commodity exemption now enjoyed by water carriers from a "three commodities" to a "one commodity" exemption. Further, the bill partially repeals the commodity clause which since 1908 has prohibited a railroad from transporting any commodity manufactured, mined or produced by it, except timber and the products thereof.

However, even if this legislation is passed, many problems of national transportation policy remain to be solved. The railroads, as the backbone of the nation's transportation system, must be allowed to prosper and serve the country to the full extent of their potentialities. This is impossible under present regulation and taxation, plus a system which permits competing modes of transportation to utilize publicly-provided tax-supported transportation facilities without adequate user charges.

The elimination of the present inequities is essential to a sound national transportation system. Stockholders are urged to make their views on these issues known to their Senators and Representatives and to urge prompt corrective action.

Litigation—Reference has been made in previous Annual Reports to the two proceedings before the Interstate Commerce Commission involving the division of revenue on traffic moving under joint through rates.

On March 28, 1963, the Commission issued its long-awaited report and order in the Transcontinental Divisions Case which involved the request of the Eastern Lines for a larger share of the revenue on traffic moving between the East and the Midwest and between the East and the far West. The Commission prescribed substantially higher divisions for the Eastern and Midwestern Lines at the expense of the Transcontinental Lines, effective July 1, 1963. The principal Transcontinental Lines which are adversely affected are the Northern Pacific Railway Company; Great Northern Railway Company; Union Pacific Railroad; Southern Pacific Company; The Atchison, Topeka and Santa Fe Railway Company; The Western Pacific Railroad Company and the Denver and Rio Grande Western Railroad Company.

The Northern Pacific, together with the other Transcontinental Lines, petitioned the Commission for reconsideration and postponement of the effective date of its order. However, the Commission refused

to stay its order and as a result, a complaint was filed in the United States District Court for the Southern District of California seeking an interlocutory injunction prohibiting the increased divisions from becoming effective pending the disposition of the petition for reconsideration. The Court granted the interlocutory injunction, thus staying the July 1, 1963, effective date. However, the Court provided that if the Commission's order is ultimately upheld, the Northern Pacific and the other Transcontinental Lines would have to settle with the Eastern and Midwestern Lines retroactive to July 1, 1963, on the basis of the prescribed divisions together with such interest as the Court may order. Although Northern Pacific believes the Commission's order is unlawful and should be reversed or modified, it has reserved \$1,600,000 of freight revenue for the period July 1 through December 31, 1963, in accordance with the Commission's accounting regulations. This is an estimate based upon a traffic sample and is, of course, subject to change based upon a complete analysis of all shipments.

On January 22, 1964, the Commission issued its report and order on reconsideration and, except for some minor changes, reaffirmed its prior report and order. The Northern Pacific, together with other Transcontinental Lines, will now appeal this latest order to the same court and will seek an interlocutory injunction staying such order pending the disposition of the appeal.

On January 31, 1964, the United States District Court for the District of Colorado set aside the order of the Commission dated May 7, 1962, granting higher divisions to the Eastern Lines on traffic moving between their territory and certain midwestern states, including points on the Northern Pacific in Minnesota, North Dakota and Wisconsin. We are now advised that the Eastern Lines will appeal this decision to the United States Supreme Court. Pending this appeal, the Eastern Lines have collected the higher divisions which the Court has now found unlawful. If the Supreme Court affirms the order of the District Court, the Northern Pacific and the other Transcontinental Lines will be entitled to refunds from the Eastern Lines involving traffic handled on and after December 23, 1962.

Corporate and Financial—Cash dividends of \$2.35 were paid during 1963 — four at the regular rate of 55¢ quarterly plus a 15¢ extra. On December 12, 1963 the regular rate was increased to 60¢ and a 10¢ extra declared, both payable January 31, 1964, to stockholders of record January 10. The last increase in the regular rate became effective in 1960 when the regular rate was raised from 50¢ to 55¢ per share.

Mortgage bonds outstanding with the public as of December 31, 1963, listed on Page 22, amounted to \$203,860,000. This is a reduction of \$2,375,000 which represents the acquisition of \$1,822,000 par value of Collateral Trust 4's and \$553,000 par value of Prior Lien 4's. A total of \$1,300,000 par value Collateral Trust 4's and \$557,000 par value Prior Lien 4's were retired and cancelled pursuant to the provisions of these mortgages. As of December 31, 1963, the Company held in the treasury \$5,218,000 par value of Collateral Trust 4's.

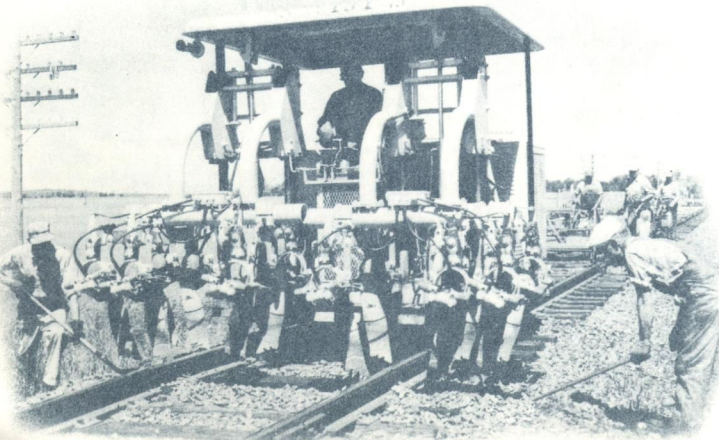
Equipment obligations of \$78,192,000 were outstanding as of the year end. A total of \$6,645,000 of new obligations were sold and \$10,374,000 retired, making a net reduction of \$3,729,000 during 1963.

Working capital including debt due within one year increased from \$58,847,000 to \$67,505,000 during the year. Cash and temporary cash investments included in working capital were \$75,386,000 at the end of 1963 as against \$65,527,000 as of December 31, 1962. The principal additions and withdrawals appear in the following tabulation:

| | |
|---|--------------|
| Cash and temporary cash investments | |
| December 31, 1962..... | \$65,527,323 |
| Additions: | |
| Net income | \$24,592,470 |
| Depreciation, retirements and other non-cash charges..... | 15,446,676 |
| Salvage from retirements and sales | 1,753,158 |
| Sale of investments..... | 1,975,986 |
| Proceeds from sale of capital stock.. | 367,434 |
| Refund of Federal Income Taxes..... | 2,520,885 |
| Miscellaneous—net | 1,661,314 |
| Total | \$48,317,923 |
| Withdrawals: | |
| Dividends paid in 1963..... | \$14,105,985 |
| Capital expenditures | |
| Roadway and structures..... | 5,853,104 |
| Equipment | \$9,818,587 |
| Less financed by equipment obligations | 5,373,017 |
| Miscellaneous physical property.. | 1,418,501 |
| Equipment obligations paid..... | 10,373,608 |
| Mortgage bonds purchased..... | 2,262,310 |
| Total | \$38,459,078 |
| Net Additions | 9,858,845 |

| | |
|--|--------------|
| Cash and temporary cash investments | |
| December 31, 1963..... | \$75,386,168 |

Taxes—Total estimated tax accruals for 1963 included in the income account, amounted to \$17,694,000, an increase of \$1,779,000 from the 1962 figure of



\$15,915,000. A summary of these accruals for the last two years is as follows:

| | 1963 | 1962 | Increase or (Decrease) |
|--|--------------|---------------|---------------------------|
| Federal Income Taxes.... | \$ 326,000† | \$(1,222,000) | \$1,548,000 |
| Payroll Taxes: | | | |
| Railroad Retirement.... | 5,509,000 | 5,408,000 | 101,000 |
| Unemployment Compensation | 2,979,000 | 2,987,000 | (8,000) |
| Property Taxes: | | | |
| For Support of Schools | 4,100,000 | 4,021,000 | 79,000 |
| For Support of State and Local Govts..... | 2,117,000 | 2,318,000 | (201,000) |
| Other State, Local and Miscellaneous Taxes.... | 2,663,000 | 2,403,000 | 260,000 |
| TOTAL | \$17,694,000 | \$15,915,000 | \$1,779,000 |

†After investment credit of \$269,000

The increase in total tax accruals of \$1,779,000 in 1963 over 1962 was due almost entirely to a \$1,548,000 increase in Federal income taxes.

The income account for the year 1962 as explained on Page 17 of the Annual Report for that year carried an estimated net Federal income tax credit of \$1,222,000. Between the time this estimate was made in January of 1963 and the Federal income tax return was filed in September, the estimated credit was increased by \$887,000. This amount was credited to Federal income tax accruals for 1963 in accordance with Interstate Commerce Commission accounting regulations. Had it not been for this credit of \$887,000, Northern Pacific would have had an estimated tax accrual of \$1,213,000 for 1963 instead of \$326,000 as shown in the above table and in the income account on Page 19.

There was no material variation between 1963 and 1962 in other taxes. Property taxes throughout the country continue to rise with increasing expenditures of state and local governments. In spite of this trend, Northern Pacific has been successful in maintaining overall control of its property taxes and, in many instances, has reduced these payments. This has been accomplished through diligent and continuing efforts to secure a reduction in valuations and the close attention given to the checking of local budgets and tax levies. In spite of an average increase in tax rates of over 40% since 1950 Northern Pacific property taxes have actually shown a decline.

Estimated tax deferments arising from amortization, new methods of depreciation including guideline depreciation for the past two years are as follows:

| Year | Amortization | New Methods of Depreciation and Depreciation Guidelines | Total Tax Deferment per Share |
|------|--------------|---|-------------------------------|
| 1962 | \$(217,000) | \$6,893,000 | \$1.11 |
| 1963 | (642,000) | 7,167,000 | 1.09 |

Accounting—During 1963 the Company's accounting techniques were further advanced by the installation of the new I.B.M. 1410 Magnetic tape Data Processing System replacing the 1401 installed in 1961. The higher speed and the enlarged storage capacity have substantially increased the data processing capability.

Stock Option—As of January 1, 1963, under the Company's Restricted Stock Option Plan which was adopted in 1954, providing for the issuance of up to 240,000 shares to key employees, options on 161,480 shares had been granted, options on 53,002 shares had been exercised, and 25 options totaling 9,667 shares cancelled, as reported in previous annual reports. The number of shares issuable under the outstanding options at the beginning of the year was 98,811. During the year 1963, options on 3,700 additional shares were granted at a price of \$46.75 per share; options previously granted, covering 14,323 shares, were exercised and 5 options for 1,352 shares were cancelled. The number of shares issuable under outstanding options at the close of 1963 was, therefore, 86,836. The number of unoptioned shares available at the beginning and at the close of 1963 was 88,187 and 85,839, respectively.

Under the Plan, each option is for a period of ten years and the option price is the highest price at which the stock traded on the New York Stock Exchange on the date on which the option was granted. No option may be exercised until one year after the granting date. Of the shares optioned, 20% may be exercised during the second year and 10% in each succeeding year, any unexercised options to carry over into subsequent years.

The Company publishes a supplementary report containing additional statistics, including Comparative Statement of Income and Balance Sheet according to Interstate Commerce Commission classification, for distribution to financial institutions, security analysts and others who may be interested. Requests for copies should be addressed to the Secretary of the Company at St. Paul, Minnesota.



NORTHERN PACIFIC
RAILWAY COMPANY

STATEMENTS OF INCOME AND RETAINED INCOME
FOR THE YEARS ENDED DECEMBER 31, 1963 AND 1962

| | 1963 | 1962 | Increase (Decrease) |
|---|---------------|---------------|------------------------|
| AVERAGE MILEAGE OPERATED..... | 6,795 | 6,795 | — |
| RAILWAY REVENUES: | | | |
| Freight..... | \$160,837,146 | \$153,638,050 | \$ 7,199,096 |
| Passenger..... | 6,461,384 | 7,840,480 | (1,379,096) |
| Mail and express..... | 6,391,384 | 6,668,488 | (277,104) |
| Equipment rents..... | 20,072,024 | 20,094,862 | (22,838) |
| Joint facility rents..... | 4,795,677 | 4,321,129 | 474,548 |
| Other..... | 5,914,597 | 6,115,917 | (201,320) |
| Total railway revenues..... | 204,472,212 | 198,678,926 | 5,793,286 |
| RAILWAY EXPENSES: | | | |
| Transportation..... | 71,155,389 | 71,355,782 | (200,393) |
| Maintenance of equipment..... | 35,467,731 | 35,145,500 | 322,231 |
| Maintenance of way and structures..... | 29,904,397 | 26,569,228 | 3,335,169 |
| Equipment rents..... | 18,719,043 | 17,718,973 | 1,000,070 |
| Joint facility rents..... | 1,279,127 | 1,323,132 | (44,005) |
| Taxes other than Federal income taxes..... | 17,367,715 | 17,137,457 | 230,258 |
| Other..... | 16,322,558 | 17,357,739 | (1,035,181) |
| Total railway expenses..... | 190,215,960 | 186,607,811 | 3,608,149 |
| Net operating income..... | 14,256,252 | 12,071,115 | 2,185,137 |
| OTHER INCOME: | | | |
| Oil and gas..... | 8,397,525 | 7,964,182 | 433,343 |
| Timber..... | 4,236,562 | 3,241,852 | 994,710 |
| Minerals..... | 526,240 | 406,649 | 119,591 |
| Real estate rentals..... | 2,445,203 | 2,362,940 | 82,263 |
| Dividends..... | 6,407,487 | 6,435,525 | (28,038) |
| Interest..... | 3,798,097 | 3,286,709 | 511,388 |
| Other..... | 1,713,763 | 1,855,731 | (141,968) |
| Total other income..... | 27,524,877 | 25,553,588 | 1,971,289 |
| Less expenses (Note 3)..... | 5,788,575 | 7,263,126 | (1,474,551) |
| Net other income..... | 21,736,302 | 18,290,462 | 3,445,840 |
| Total income..... | 35,992,554 | 30,361,577 | 5,630,977 |
| INTEREST AND OTHER CHARGES..... | 11,074,084 | 11,283,283 | (209,199) |
| INCOME BEFORE FEDERAL INCOME TAXES..... | 24,918,470 | 19,078,294 | 5,840,176 |
| PROVISION FOR FEDERAL INCOME TAXES (Note 1)..... | 326,000 | (1,222,241) | 1,548,241 |
| NET INCOME—In conformity with I.C.C. accounting rules..... | \$ 24,592,470 | \$ 20,300,535 | \$ 4,291,935 |
| Estimated deferment of Federal income taxes (Note 1)..... | 6,525,000 | 6,676,000 | (151,000) |
| NET INCOME—In conformity with generally accepted accounting principles... | \$ 18,067,470 | \$ 13,624,535 | \$ 4,442,935 |

RETAINED INCOME

| | | | |
|--|---------------|---------------|---------------|
| BALANCE AT BEGINNING OF YEAR..... | \$381,474,367 | \$374,636,307 | \$ 6,838,060 |
| ADD: | | | |
| Net income—In conformity with I.C.C. accounting rules..... | 24,592,470 | 20,300,535 | 4,291,935 |
| Donations transferred from Capital Surplus..... | — | 631,154 | (631,154) |
| Total..... | 406,066,837 | 395,567,996 | 10,498,841 |
| LESS: Cash dividends declared—\$2.35 per share..... | 14,115,722 | 14,093,629 | 22,093 |
| BALANCE AT END OF YEAR..... | \$391,951,115 | \$381,474,367 | \$ 10,476,748 |

See Notes to Financial Statements on pages 20 and 21.

NORTHERN PACIFIC
RAILWAY COMPANY

ASSETS

| | 1963 | 1962 |
|--|-----------------|-----------------|
| CURRENT ASSETS: | | |
| Cash..... | \$ 6,066,698 | \$ 8,759,186 |
| Temporary cash investments..... | 69,319,470 | 56,768,137 |
| Accounts receivable..... | 22,988,735 | 21,354,202 |
| Material and supplies..... | 19,099,342 | 19,290,948 |
| Other current assets..... | 2,450,338 | 2,182,278 |
| Total current assets..... | 119,924,583 | 108,354,751 |
| SPECIAL FUNDS AND INVESTMENTS: | | |
| Special funds..... | 4,846,182 | 2,328,121 |
| Investments in affiliated companies (See page 23)..... | 167,726,665 | 168,852,299 |
| Other investments..... | 3,548,475 | 4,398,828 |
| Total special funds and investments..... | 176,121,322 | 175,579,248 |
| PROPERTIES: | | |
| Transportation property..... | 891,207,941 | 880,646,430 |
| Less accumulated depreciation and amortization..... | 195,874,312 | 184,959,874 |
| Net transportation property..... | 695,333,629 | 695,686,556 |
| Non-operating property..... | 24,558,238 | 23,579,761 |
| Less accumulated depreciation..... | 4,452,312 | 3,871,909 |
| Net non-operating property..... | 20,105,926 | 19,707,852 |
| Total net properties..... | 715,439,555 | 715,394,408 |
| OTHER ASSETS AND DEFERRED CHARGES..... | 8,362,032 | 11,324,411 |
| TOTAL..... | \$1,019,847,492 | \$1,010,652,818 |

NOTES TO FINANCIAL STATEMENTS

1. The Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission varies from generally accepted accounting principles, in that no accounting recognition is given to the possible effect on income taxes in future years, of current deferment of income taxes, resulting from deductions (net) for amortization and depreciation of property for income tax purposes in excess of those recorded in the accounts. The cumulative amount of such estimated deferment of income taxes included in retained income at December 31, 1963 was \$34,786,000. Estimated tax deferments arising from amortization, new methods of depreciation and depreciation guidelines during the last two years were as follows:

| Year | Amortization | New Methods of Depreciation and Depreciation Guidelines | Total Tax Deferment per Share |
|------|--------------|---|-------------------------------|
| 1962 | \$(217,000) | \$6,893,000 | \$1.11 |
| 1963 | (642,000) | 7,167,000 | 1.09 |

2. For the purposes of computing operating ratios as shown in income highlights on page 2 it is necessary to deduct equipment and joint facility rents from railway revenues, and related expenses and taxes other than Federal income taxes from railway expenses.

3. Expenses applicable to other income do not include allocations of interest on funded debt and certain other direct and indirect expenses.

4. As of December 31, 1963, the Company was liable as guarantor, individually or jointly with others, of securities issued by affiliates amounting to \$12,565,000. In addition, Northern Pacific Railway Company, together with 37 other proprietary companies of Trailer Train Company, is obligated to advance to Trailer Train Company

BALANCE
SHEET

DECEMBER 31, 1963 AND 1962

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1963 | 1962 |
|---|-----------------|-----------------|
| CURRENT LIABILITIES: | | |
| Accounts and wages payable..... | \$ 10,520,716 | \$ 9,277,944 |
| Interest accrued..... | 3,151,304 | 3,141,049 |
| Dividends declared..... | 4,271,434 | 4,260,434 |
| Federal income taxes accrued..... | 3,865,946 | 3,264,673 |
| Other taxes accrued..... | 8,276,912 | 7,931,822 |
| Other accrued liabilities..... | 10,267,571 | 9,904,500 |
| Total current liabilities..... | 40,353,883 | 37,780,422 |
| Long-term debt due within one year..... | 12,065,530 | 11,726,886 |
| Total current liabilities and long-term debt due within one year..... | 52,419,413 | 49,507,308 |
| LONG-TERM DEBT (See page 22): | | |
| Funded debt unmatured..... | 202,668,055 | 205,097,728 |
| Equipment obligations..... | 67,481,873 | 71,547,230 |
| Total long-term debt due after one year..... | 270,149,928 | 276,644,958 |
| OTHER LIABILITIES: | | |
| Pension, casualty, and other reserves..... | 10,342,724 | 9,173,041 |
| Other liabilities and deferred credits..... | 2,912,935 | 2,148,163 |
| Total other liabilities..... | 13,255,659 | 11,321,204 |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, \$5 par value (outstanding 1963, 6,009,414 shares; 1962, 5,995,593 shares)..... | 30,047,070 | 29,977,965 |
| Capital surplus..... | 262,024,307 | 261,727,016 |
| Retained income..... | 391,951,115 | 381,474,367 |
| Total shareholders' equity..... | 684,022,492 | 673,179,348 |
| TOTAL..... | \$1,019,847,492 | \$1,010,652,818 |

under certain conditions such sums as may be needed by that Company to pay principal and interest under terms of certain of its outstanding obligations. At December 31, 1963 such obligations aggregated \$104,585,000.

5. The Company carries a service interruption policy under which it will be entitled to indemnity for certain work-stoppage losses. In the event such losses are sustained by other railroads holding similar policies, the Company may be obliged to pay additional premiums, subject to a maximum premium of approximately \$2,200,000.

6. The Company has agreed that prior to the Merger or while the Merger Agreement is in effect it will not declare dividends in excess of \$2.60 per share per annum.

7. Increases in capital stock and capital surplus resulted from the sale of stock under the option plan. For details of the plan see page 18.

8. The current cost of renewals of parts of the track structure is charged to maintenance expense and additions and betterments to the structure are capitalized. Provision for depreciation has been made as to other classes of transportation property. Charges to operating expense for depreciation of road and equipment and for renewals of the track structure were as follows:

| | 1963 | 1962 |
|----------------------------------|--------------|--------------|
| Depreciation..... | \$14,373,577 | \$13,872,606 |
| Renewals of track structure..... | 12,591,696 | 9,698,603 |
| Total..... | \$26,965,273 | \$23,571,209 |

9. In accordance with Interstate Commerce Commission accounting regulations, freight revenue has been reduced by \$1,600,000 and a reserve of like amount established in connection with the Transcontinental Divisions Cases discussed on page 16.

NORTHERN PACIFIC RAILWAY COMPANY

LONG TERM DEBT

DECEMBER 31, 1963

| Name and Character of Obligation | Interest Rate % | Maturity Date | Outstanding with Public | Held in Treasury or Pledged | 1964 Maturities | Interest Expense for 1963 |
|---|-----------------|---------------|-------------------------|-----------------------------|-----------------|---------------------------|
| FUNDED DEBT (BONDS): | | | | | | |
| Prior Lien Mortgage..... | 4 | 1997 | \$ 95,070,300 | — | — | \$ 3,810,720 |
| General Lien Mortgage..... | 3 | 2047 | 53,585,900 | \$ 5,555,000 | — | 1,607,577 |
| St. Paul-Duluth Division Mortgage..... | 4 | 1996 | 253,000 | — | — | 10,120 |
| Refunding and Improvement Mortgage Series A..... | 4.5 | 2047 | 17,569,000 | — | — | 790,605 |
| Series E (pledged under collateral trust indenture)..... | 4 | 2047 | — | 67,750,000 | — | — |
| St. Paul and Duluth Railroad First Consolidated Mortgage (assumed)..... | 4 | 1968 | 1,000,000 | — | — | 40,000 |
| Collateral Trust Indenture..... | 4 | 1984 | 36,382,000 | 5,218,000 | \$ 1,300,000* | 1,483,388 |
| Total Bonds..... | | | 203,860,200 | 78,523,000 | 1,300,000 | 7,742,410 |

EQUIPMENT OBLIGATIONS:

| Equipment Trust Certificates | Serially to | | | | | |
|------------------------------|-------------|------|-----------|---|---------|---------|
| 1949..... | 2.375 | 1964 | 400,000 | — | 400,000 | 11,478 |
| 1949, Second Series..... | 2.375 | 1964 | 430,000 | — | 430,000 | 14,891 |
| 1949, Third Series..... | 2.125 | 1964 | 265,000 | — | 265,000 | 10,323 |
| 1951..... | 2.75 | 1966 | 1,380,000 | — | 460,000 | 41,112 |
| 1951, Second Series..... | 3 | 1966 | 684,000 | — | 228,000 | 26,790 |
| 1952..... | 2.875 | 1967 | 1,700,000 | — | 425,000 | 60,585 |
| 1954..... | 2.625 | 1969 | 1,830,000 | — | 305,000 | 51,039 |
| 1954, Second Series..... | 2.75 | 1969 | 2,088,000 | — | 348,000 | 63,401 |
| 1955..... | 2.75 | 1970 | 1,848,000 | — | 264,000 | 51,122 |
| 1955, Second Series..... | 3 | 1970 | 2,408,000 | — | 344,000 | 76,970 |
| 1955, Third Series..... | 3 | 1970 | 1,316,000 | — | 188,000 | 42,535 |
| 1955, Fourth Series..... | 3.25 | 1970 | 840,000 | — | 120,000 | 31,092 |
| 1956..... | 3.125 | 1971 | 3,232,000 | — | 404,000 | 102,578 |
| 1956, Second Series..... | 3.5 | 1971 | 4,120,000 | — | 515,000 | 153,964 |
| 1957..... | 4.375 | 1972 | 4,644,000 | — | 516,000 | 204,115 |
| 1957, Second Series..... | 4.5 | 1972 | 3,852,000 | — | 428,000 | 182,167 |
| 1958..... | 3.875 | 1973 | 2,470,000 | — | 247,000 | 95,978 |
| 1958, Second Series..... | 3.625 | 1973 | 5,010,000 | — | 501,000 | 188,169 |
| 1959..... | 4.375 | 1974 | 3,476,000 | — | 316,000 | 154,955 |
| 1959, Second Series..... | 4.75 | 1974 | 4,411,000 | — | 401,000 | 220,634 |
| 1960..... | 4.875 | 1975 | 2,736,000 | — | 228,000 | 133,689 |
| 1960, Second Series..... | 4.25 | 1975 | 5,196,000 | — | 433,000 | 226,964 |
| 1960, Third Series..... | 3.875 | 1975 | 5,016,000 | — | 418,000 | 205,842 |
| 1961..... | 4.25 | 1976 | 5,967,000 | — | 459,000 | 266,196 |
| 1962..... | 3.875 | 1977 | 3,766,000 | — | 269,000 | 150,709 |
| 1963..... | 3.875 | 1978 | 6,645,000 | — | 443,000 | 250,343 |

Conditional Purchase Contracts

| | | | | | | |
|--|------|------|------------|---|------------|-----------|
| Continental Illinois National Bank & Trust Co., Assignee—Series B..... | 3.85 | 1965 | 700,000 | — | 400,000 | 36,936 |
| Seattle-First National Bank, Assignee..... | 3 | 1964 | 262,500 | — | 262,500 | 14,000 |
| Seattle-First National Bank, Assignee..... | 3.95 | 1965 | 900,000 | — | 450,000 | 45,919 |
| First National City Bank, Assignee..... | 4 | 1966 | 599,730 | — | 242,857 | 28,037 |
| Total Equipment Obligations..... | | | 78,192,230 | — | 10,710,357 | 3,142,533 |

| | | | | | | |
|--------------------------------|-----|------|---------------|--------------|--------------|--------------|
| MISCELLANEOUS OBLIGATIONS..... | 3.5 | 1974 | 163,028 | — | 55,173 | 6,721 |
| TOTAL..... | | | \$282,215,458 | \$78,523,000 | \$12,065,530 | \$10,891,664 |

*Sinking fund requirement.

INVESTMENTS IN AFFILIATED COMPANIES

DECEMBER 31, 1963

STOCKS:

| | Per Cent Owned | Book Value | Dividend and Interest Income for 1963 |
|--|----------------|-------------|---------------------------------------|
| Camas Prairie Railroad Company..... | 50.00 | \$ 50,000 | — |
| Chicago, Burlington & Quincy Railroad Company—pledged..... | 48.59 | 109,245,973 | \$6,226,343 |
| Cuyuna Realty Company..... | 100.00 | 7,934,713 | — |
| The Duluth Union Depot and Transfer Company—pledged..... | 100.00 | 300,000 | 15,000 |
| The Lake Superior Terminal and Transfer Railway Company—pledged..... | 33.33 | 169,800 | — |
| Lemhi Telephone Company..... | 100.00 | 85,645 | 18,000 |
| The Midland Railway Company of Manitoba..... | 50.00 | 2,400,000 | — |
| The Minnesota Transfer Railway Company—pledged..... | 11.11 | 91,300 | — |
| Missabe Realty Company..... | 100.00 | 564,712 | — |
| The Northern Pacific Terminal Company of Oregon..... | 40.00 | 1,879,520 | — |
| Northern Pacific Transport Company..... | 100.00 | 1,368,594 | — |
| The Pullman Company..... | 1.51 | 375,292 | — |
| Railway Express Agency, Incorporated..... | 1.20 | 1,200 | — |
| The St. Paul Union Depot Company—pledged..... | 12.50 | 130,475 | 4,144 |
| Spokane, Portland & Seattle Railway Company—pledged..... | 50.00 | 20,000,000 | — |
| Walla Walla Valley Railway Company..... | 100.00 | 144,687 | — |
| Trailer Train Company..... | 2.70 | 119,680 | — |
| Great Northern Pacific and Burlington Lines, Inc..... | 50.00 | 500 | — |
| Total stocks..... | | 144,862,091 | 6,263,487 |

BONDS:

| | | |
|--|------------|-----------|
| Spokane, Portland & Seattle Railway Company..... | 18,098,500 | 1,084,200 |
|--|------------|-----------|

UNSECURED NOTES:

| | | |
|--|-----------|--------|
| Cuyuna Realty Company..... | 1,500,000 | 45,000 |
| Northern Pacific Transport Company..... | 342,165 | 18,254 |
| The Duluth Union Depot and Transfer Company..... | 33,180 | 1,659 |
| Lemhi Telephone Company..... | 125,000 | 6,875 |
| Missabe Realty Company..... | 300,000 | 9,000 |
| Railway Express Agency, Incorporated..... | 346,986 | 17,349 |

| | | |
|----------------------------|-----------|--------|
| Total unsecured notes..... | 2,647,331 | 98,137 |
|----------------------------|-----------|--------|

| | | |
|--------------------------|-----------|--------|
| INVESTMENT ADVANCES..... | 2,118,743 | 63,398 |
|--------------------------|-----------|--------|

| | | |
|------------|---------------|-------------|
| TOTAL..... | \$167,726,665 | \$7,509,222 |
|------------|---------------|-------------|

HASKINS & SELLS CERTIFIED PUBLIC ACCOUNTANTS

NORTHWESTERN BANK BUILDING
MINNEAPOLIS, MINNESOTA 55402

ACCOUNTANTS' OPINION

NORTHERN PACIFIC RAILWAY COMPANY:

We have examined the balance sheet of Northern Pacific Railway Company as of December 31, 1963 and the related statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared in accordance therewith. As explained in Note 1, the provisions of the Uniform System of Accounts vary in certain respects from generally accepted accounting principles.

In our opinion, with the exception referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the Company at December 31, 1963 and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 21, 1964

Haskins & Sells

CHICAGO, BURLINGTON & QUINCY RAILROAD COMPANY

STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1963 AND 1962

| | 1963 | 1962 | Increase (Decrease) |
|--|---------------|---------------|------------------------|
| AVERAGE MILEAGE OPERATED..... | 8,547 | 8,558 | (11) |
| RAILWAY REVENUES..... | \$290,501,800 | \$292,012,517 | \$(1,510,717) |
| RAILWAY EXPENSES..... | 261,546,115 | 264,084,919 | (2,538,804) |
| Net operating income..... | 28,955,685 | 27,927,598 | 1,028,087 |
| OTHER INCOME..... | 4,378,870 | 4,292,319 | 86,551 |
| OTHER EXPENSES..... | 445,300 | 619,743 | (174,443) |
| Total income..... | 32,889,255 | 31,600,174 | 1,289,081 |
| FIXED CHARGES..... | 7,646,545 | 7,599,624 | 46,921 |
| INCOME BEFORE FEDERAL INCOME TAXES..... | 25,242,710 | 24,000,550 | 1,242,160 |
| PROVISION FOR FEDERAL INCOME TAXES..... | 3,875,062 | 3,587,646 | 287,416 |
| NET INCOME—In conformity with I. C. C. accounting rules..... | \$ 21,367,648 | \$ 20,412,904 | \$ 954,744 |
| DIVIDENDS DECLARED..... | \$ 12,812,902 | \$ 12,812,902 | — |

48.59% of capital stock of the C.B. & Q. owned by Northern Pacific Railway Company.

SPOKANE, PORTLAND & SEATTLE RAILWAY COMPANY

CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1963 AND 1962

| | 1963 | 1962 | Increase (Decrease) |
|--|---------------|---------------|------------------------|
| AVERAGE MILEAGE OPERATED..... | 936 | 936 | — |
| RAILWAY REVENUES..... | \$ 38,135,303 | \$ 35,526,186 | \$ 2,609,117 |
| RAILWAY EXPENSES..... | 33,923,747 | 33,015,812 | 907,935 |
| Net operating income..... | 4,211,556 | 2,510,374 | 1,701,182 |
| OTHER INCOME..... | 701,378 | 659,891 | 41,487 |
| OTHER EXPENSES..... | 55,937 | 82,667 | (26,730) |
| Total income..... | 4,856,997 | 3,087,598 | 1,769,399 |
| FIXED CHARGES..... | 2,321,604 | 2,370,946 | (49,342) |
| INCOME BEFORE FEDERAL INCOME TAXES..... | 2,535,393 | 716,652 | 1,818,741 |
| PROVISION FOR FEDERAL INCOME TAXES..... | 338,440 | — | 338,440 |
| NET INCOME—In conformity with I. C. C. accounting rules..... | \$ 2,196,953 | \$ 716,652 | \$ 1,480,301 |

50% of capital stock and bonds of the S.P. & S. owned by Northern Pacific Railway Company.

NORTHERN PACIFIC TRAFFIC OFFICES

Aberdeen, Wash. — H. J. Bond, General Agent
Union Station — Phone LEnox 2-2140

Atlanta 3, Ga. — J. A. Marshall, General Southeastern Agent
1313 Healey Bldg. — Phone JAcKson 4-8119

Billings, Mont. — D. J. Powers, General Agent
N.P. Bldg., Montana Ave. — Phone 259-4521

Buffalo 3, N. Y. — George A. Holm, General Agent
601 Ellicott Square — Phone TL 4-6822

Butte, Mont. — K. A. Knutson, General Agent
Northern Pacific Station — Phone 792-2520

Chicago 3, Ill. — H. F. Compton, General Agt., Pass. Dept.
C. M. Gautwick, Asst. Freight Traffic Manager
1172 Marquette Bldg. — Phone FInancial 6-6776

Cincinnati 2, Ohio — M. F. Connor, General Agent
1409-10 Carew Tower — Phone 241-5938

Cleveland 13, Ohio — L. A. Gindling, General Agent
1334 Term. Tower Bldg. — Phone MAIn 1-2846

Dallas 1, Texas — G. J. Adamcik, General Agent
1009 Kirby Bldg. — Phone RIVerside 7-7872

Denver 2, Colo. — S. F. Fitzpatrick, General Agent
702 Ry. Exch. Bldg. — Phone 244-3743

Detroit 26, Mich. — Walter Westman, Gen. Freight and Pass. Agent
810 Lafayette Bldg. — Phone WOODward 2-4934

Duluth 2, Minn. — T. O. Kirkvold, Asst. Gen. Freight and Pass. Agent
111 Union Depot — Phone RAndolph 2-8353

Edmonton, Alta. — K. R. Rue, General Agent
10201 104th St., Rm. 409 — Phone GArden 4-4454

Eugene, Oregon — J. E. Beckwith, General Agent
Cascade Bldg. — Phone 342-1271

Everett, Wash. — C. H. Wilson, General Agent
2631 Broadway — Phone ALPine 9-1117

Fargo, N. D. — W. E. Taylor, Asst. Gen. Freight and Pass. Agt.
N.P. Building — Phone ADams 5-7544

Grand Forks, N. D. — R. W. Cran, General Agent
Northern Pacific Station — Phone 774-9431

Helena, Mont. — Herman Johnson, Jr., City Pass. and Ticket Agent
Northern Pacific Station — Phone HICKory 2-1660

Kansas City 5, Mo. — K. A. Trowbridge, General Agent
411 Board of Trade Bldg. — Phone VICTor 2-3141

Lewiston, Idaho — C. W. Meckstroth, General Agent
Union Station — Phone SHerwood 3-3434

Los Angeles 14, Calif. — Spencer A. Jewell, General Agent
Room 464, 610 South Main St. — Phone MADison 7-2321

Milwaukee 3, Wis. — G. E. Thorne, General Agent
913 Majestic Bldg. — Phone BRoadway 6-2815

Minneapolis 2, Minn. — J. A. Beatty, Asst. General Pass. Agent
101 South 7th St. — Phone 339-4833
J. D. Nankivell, Asst. Gen. Freight Agent
607 Marquette Ave. — Phone 339-9146

Missoula, Mont. — Richard Roth, General Agent
Northern Pacific Station — Phone 543-3161

New York 20, N.Y. — W. C. Havens, General Agent
J. R. Patterson, General Freight & Passenger Agent
630 Fifth Avenue — Phone Circle 6-4053

Oakland 12, Cal. — J. V. Krisman, General Agent
611 Central Bldg. — Phone 451-8717

Omaha 2, Nebr. — A. G. Anderson, General Agent
309 W.O.W. Bldg. — Phone 341-7177

Pasco, Wash. — H. P. Wohld, Dist. Freight & Pass. Agent
Northern Pacific Station — Phone LIBerty 7-3244

Philadelphia 9, Pa. — R. W. Thoemke, General Agent
Room 926-7, 123 So. Broad St. — Phone KINGSley 5-0181

Pittsburgh 22, Pa. — Carl A. Schelly, General Agent
608-9 Park Bldg. — Phone ATLantic 1-0306

Portland 4, Oregon — A. T. Mercer, General Agent, Pass. Dept.
439 S. W. 6th Ave. — Phone CAPitol 2-1311
W. D. Miller, General Freight Agent
707 American Bk. Bldg. — Phone CAPitol 7-0423

St. Louis 2, Mo. — H. J. Spence, General Agent
919-922 Boatmen's Bk. Bldg. — Phone GARfield 1-3280

St. Paul 2, Minn. — H. R. Cotton, General Agent, Pass. Dept.
Hotel St. Paul — Phone 222-7773
R. E. McCourtney, Asst. Gen. Freight Agent
Northern Pacific Bldg. — Phone 222-7773

San Francisco 5, Cal. — Daniel Tinney, General Agent
1003 Monadnock Bldg. — Phone SUTter 1-1078

Seattle 1, Wash. — R. W. Geierman, City Ticket Agent
506 Union Street — Phone MAIn 3-5560
M. J. Delmore, General Agent, Frt. Dept.
200 Smith Tower — Phone MAIn 3-5560

Spokane 4, Wash. — W. J. Riddell, General Agent
W. 221 First Ave. — Phone MADison 4-5321

Tacoma 2, Wash. — G. T. Flynn, Asst. Gen. Freight and
Passenger Agent
Union Station — Phone FULTon 3-1428

Toronto 1, Ont. — W. A. Lemon, General Agent
Room C-29, Union Station — Phone EMPire 4-2028

Vancouver 1, B. C. — J. M. Richmond, General Agent
Rm. 207, Stock Exch. Bldg. — Phone MUTual 3-2461

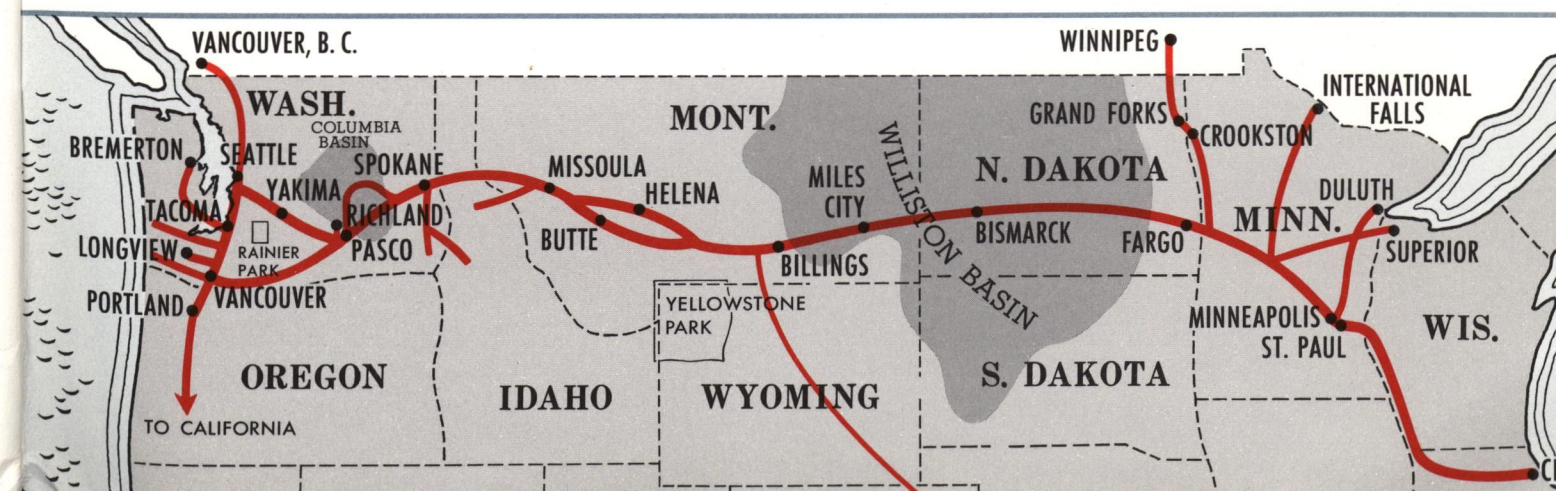
Walla Walla, Wash. — G. B. Nelson, General Agent
Northern Pacific Station — Phone JAcKson 5-0740

Washington 5, D. C. — E. K. Kremer, District Passenger Agent
500 Shoreham Bldg. — Phone NATional 8-8670

Winnipeg, Man. — C. C. Gardner, General Agent
Rm. 40 Trans-Canada Bldg. — Phone 942-7946

Winston-Salem 1, N. C. — L. O. Moe, Dist. Freight and Pass. Agent
1207 Reynolds Bldg. — Phone PARK 3-1132

Yakima, Wash. — J. H. Halvorsen, General Agent
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