BURLINGTON NORTHERN INC. ANNUAL REPORT 1969

Annual Report for the year ended December 31, 1969

BURLINGTON NORTHERN

This is the first annual report for Burlington Northern Inc., America's newest major transportation company, which officially began operations on March 3 of this year.

Shareholders of the Chicago, Burlington and Quincy; Great Northern, and Northern Pacific may wonder why this 1969 report centers on Burlington Northern activities rather than an accounting of the individual firms which comprise the new company.

The decision to produce a merged company report was reached by Burlington Northern management after long and careful deliberation. It was their considered opinion that it would be more appropriate to report their stewardship for the year past on a pro forma basis to provide shareholders an early bench mark by which to measure the progress of the new company in future years.

This Burlington Northern annual report serves also as a means to introduce the Board of Directors and principal officers to shareholders. The directors and officers are listed on the inside back cover.

For those interested in the 1969 financial statements of the constituent companies, a statistical supplement to this report for the Burlington, Great Northern, Northern Pacific, and the Spokane, Portland & Seattle is available on request. Write to:

Mr. R. M. O'KELLY, Secretary,
BURLINGTON NORTHERN INC.
176 East Fifth Street
St. Paul, Minnesota 55101

HIGHLIGHTS

(in thousands of dollars)

	1969	1968	INCREASE (DECREASE)
CONSOLIDATED OPERATIONS			
Ordinary Income — Before Extraordinary Charge and Deferred Federal Income Taxes — ICC Accounting Rules	$ 49,871	$ 53,692	$ (3,821)
Per Share (Dollars)	$ 3.92	$ 4.23	$ (0.31)
Income Before Extraordinary Item — Generally Accepted Accounting Principles	$ 39,601	$ 47,788	$ (8,187)
Per Share (Dollars)	$ 3.09	$ 3.75	$ (0.66)
Net Income — ICC Accounting Rules (1)	$ 16,613	$ 53,692	$(37,079)
Per Share (Dollars)	$ 1.21	$ 4.23	$ (3.02)
Net Income — Generally Accepted Accounting Principles (1)	$ 6,343	$ 47,788	$(41,445)
Per Share (Dollars)	$ 0.38	$ 3.75	$ (3.37)
Transportation Revenues	$907,392	$859,814	$ 47,578
Transportation Costs and Expenses	$851,081	$793,258	$ 57,823
Federal Income Taxes	$ 5,260	$ 5,815	$ (555)
Available for Fixed Charges	$ 92,697	$ 97,687	$ (4,990)
Fixed Charges	$ 37,023	$ 37,673	$ (650)
Times Fixed Charges Earned	2.50	2.59	(0.09)
Dividends Declared	$ 34,383	$ 34,362	$ 21
Cash and Temporary Cash Investments — December 31	$ 98,993	$135,724	$(36,731)
Working Capital — December 31	$ 53,634	$ 80,790	$(27,156)
Funded Debt — December 31	$813,953	$844,526	$(30,573)
Ratios to Revenues:			
Net Income	0.70%	5.56%	(4.86%)
Transportation Expenses	40.24%	39.10%	1.14%
Maintenance Expenses	32.66%	32.36%	0.30%
All Operating Expenses	82.94%	81.65%	1.29%
BURLINGTON NORTHERN INC. (Excluding Subsidiaries)			
Ordinary Income — Before Extraordinary Charge and Deferred Federal Income Taxes — ICC Accounting Rules	$ 46,897	$ 52,102	$ (5,205)
Per Share (Dollars)	$ 3.68	$ 4.10	$ (0.42)
Net Income — ICC Accounting Rules (1)	$ 13,639	$ 52,102	$(38,463)
Per Share (Dollars)	$ 0.97	$ 4.10	$ (3.13)
Operating Revenues	$835,365	$792,108	$ 43,257
Operating Expenses	$694,787	$647,803	$ 46,984
Miles of Road Operated	23,969	24,076	(107)
Revenue Net Ton Miles (Millions)	60,727	57,059	3,668
Employees	47,865	48,766	(901)
Shareholders	74,921	N.A.	—

(1) See note 9 on page 31.

Shareholders of
Burlington Northern Inc.

Welcome to your new company, Burlington Northern Inc. This, its initial annual report, describes briefly what has transpired during the past year. More importantly, it looks ahead to the future that this new company has for its stockholders, customers, shippers, employees and for the territory served.

Merger of the constituent companies, Great Northern, Northern Pacific, Chicago, Burlington and Quincy, and the Spokane, Portland and Seattle, into Burlington Northern Inc., was accomplished on March 2, 1970, nine years after the application to consolidate was filed with the Interstate Commerce Commission.

The long and winding road to realization of the merger was marked by prolonged hearings before an I.C.C. examiner, a protracted wait for the examiner's report, an unfavorable decision by the Interstate Commerce Commission, a reversal of this decision upon reconsideration by the Commission, extended litigation in Federal Courts, and finally, the decision of the Supreme Court of the United States on February 2, 1970, upholding the decision of the I.C.C. Throughout these trying times, your corporate officers and directorates were sustained by their resolute belief in the soundness of the proposal and the benefits that would accrue from merger. We reiterate that belief. Efforts to achieve the basic benefits will be extended and intensified now that the merged company is a functioning entity.

The major benefits of consolidation bear repeating. These include major operational and management savings through elimination of costly duplicate services, improved position to acquire capital for modernization and improvement, faster and more reliable freight services, improved freight car supply, wider routing and better transit and diversion privileges available to customers, and a substantial contribution to our country's total transportation complex.

Burlington Northern has substantial non-railroad assets, principally timber, mineral and oil resources, which will contribute importantly to its future income. Management is dedicated to the continued optimization of these properties to the benefit of stockholders. The merger will permit greater emphasis to be placed on the development of new industries in the many areas served by the company, utilizing properties dedicated for industrial development.

As a result of our merger and the conditions imposed by the Commission, the competitive position of the Milwaukee Road and the Chicago & North Western will be significantly enhanced.

As a result of careful planning over the past few years, we believe that integration of operations will be attained with a minimum of difficulty, and that at the same time, maximum use will be made of the company's vast resources and facilities. In large part, capital improvement programs of recent years have been designed to benefit the Burlington Northern, as well as the constituent companies. Conversely, we have generally assigned lower priority to projects which would not carry benefits over to the new company.

The organizational structure of the Burlington Northern is marked by careful planning. It was established after long and thoughtful study and with the advice and assistance of a highly capable management consulting firm.

A major feature of the organization is the establishment of six regions, each under the direction of a vice president, with headquarters at Chicago, Omaha, Minneapolis, Billings, Portland and Seattle. Responsibility and authority vested in these key officers will provide close contact with shippers, employees and the public, also, close supervision of operations in the respective regions.

Coordination of the regional activities will fall on the shoulders of responsible system officers headquartered at St. Paul, Minnesota.

Full integration of operations depends upon a number of major capital expenditures. Principal requirements are for yard improvements at Minneapolis and Spokane and in the Seattle-Tacoma area. A major bridge at Spokane will take about three years for completion.

Our basic goal is to provide better service to our shippers from the first day of the merger. Changes in operations will be made as rapidly as possible consistent with this goal. Integration of activities will be made on a carefully planned, step-by-step basis to ensure success and minimize the possibilities of service deficiencies. In the long run, Burlington Northern will be further strengthened by this careful approach.

We have incorporated into the Burlington Northern organization a merger development department responsible for assistance in achieving merger savings already documented and to monitor those that will emerge.

In the period of transition, during which the operation of the constituent companies is dovetailed into the merged company, there will be no wholesale layoff of employees. Agreements with unions provide that reductions in force will be limited to those resulting from attrition. Some employees will be transferred from present to new locations. While this will cause inconvenience to those involved, we have taken steps to minimize their discomfort and protect them against financial loss due to transfer. Employee concern is

LOUIS W. MENK JOHN M. BUDD

our concern, for we must rely on loyal and devoted employees to keep the wheels of Burlington Northern turning smoothly and efficiently.

This initial Burlington Northern annual report provides audited figures for 1968 and 1969 on a pooling of interests basis.

In general, higher freight traffic levels in 1969 — approximately 6 percent over 1968 — contributed to an increase in total operating revenues. The freight rate increase which became effective late in 1968, and a further 6 percent increase effective late in November 1969, also improved revenues during the year.

Rapidly rising labor and material costs, however, more than offset the increase in revenues, with the result that net income did not rise correspondingly.

There was a further reduction in passenger revenues in 1969 and this trend is expected to continue in the foreseeable future.

Finally, 1969 net income has been reduced by an extraordinary charge of $33,258,000, net of taxes, approved by our public accountants and the I.C.C., to establish a reserve for certain merger expenses. This will aid in avoiding distortion of future operating results due to non-recurring operating charges as merger changes are accomplished. (More fully described in Financial section, page 18.)

As to 1970, it is most difficult at this time to predict the general state of our economy. Revenues in the early weeks of the year are running ahead of 1969. Pressure for more housing is building up. Assuming gradual lowering of interest rates, it is hoped that housing starts will increase as the year goes on and will result in an improved movement of lumber. Grain in storage in country elevators served by Burlington Northern is at record levels, and this portends a good movement for the coming year. The laudable efforts of the administration to cool off the economy may well result in a reduction in the movement of manufactured and miscellaneous articles.

In spite of the fact that prospects for transportation in 1970 are not as bright as we would like them to be, it is hoped that improved service made possible through merger will provide us with a competitive advantage that will attract more business to Burlington Northern.

We take this opportunity to express appreciation to customers, shippers, stockholders, officers and employees who have supported and made possible the successful operation of the roads constituting the new Burlington Northern. We ask for continued support so that we may realize the full potential of the merger and build Burlington Northern into the greatest transportation artery in the United States.

March 20, 1970

JM Budd
JOHN M. BUDD
Chairman and Chief Executive Officer

Louis W. Menk
LOUIS W. MENK
President and Chief Operating Officer


CROSSING

REVIEW OF THE YEAR

1969 was a year of record activity for the company with transportation revenues exceeding $900 million, up 5.5 percent over the previous year. Other income totaling $66.7 million was up $9.4 million from the previous year for an increase of 16.4 percent. Passenger and passenger related revenues were down slightly and this downward trend is expected to continue.

Freight revenues were improved due to certain major increases in the movement of several important commodities as well as freight rate increases that became effective late in 1968 amounting to approximately 5 percent and an across-the-board 6 percent increase that became effective November 18, 1969. The 1969 increase was permitted to go into effect subject to investigation so that the higher level is not on a final basis. Some shippers have objected to certain of the increases. However, in the inflationary economy of the last several years, these freight rate increases have been essential for the railroads in order to meet higher wage and material costs. The increases are not out of line with price increases in industry generally and rail service continues to be a substantial transportation bargain.

Total expenses in 1969 were up 7.3 percent over the previous year due to an unusually severe winter across the entire system early in the year and to the wage increases that became effective in 1969. In the 10-year period from 1959 to 1969, wage rates have increased approximately 47 percent.

Income from the non-operating properties, principally from oil and gas and the sale of timber, were also higher than the prior year, but expenses relating to these revenues also increased.

The net effect was a slight reduction in net income before accounting for special charges relating to the merger. These charges are referred to in the financial section of the report and in the notes to the financial statements.

Improvements continued in 1969 with additional betterments to the physical plant and a strong program to improve the managerial capabilities and talents of supervisors and officers. Several developments in the marketing area were progressed that will ultimately improve the future revenue base of the Burlington Northern.

The most auspicious events in the past six months were argument of the merger case before the United States Supreme Court in October, 1969, and the Supreme Court's approval on February 2, 1970, permitting consummation of the merger, effective March 2, 1970. Merger details are listed on page 23.

We regret the resignation, effective March 16, 1970, of Mr. W. J. Quinn, Vice Chairman of the Board of Burlington Northern Inc. Mr. Quinn served with distinction as President of the Burlington from 1966 to 1970. Many significant improvements attest to his able stewardship of that property. He has contributed unsparingly of his time and talents to consummation of the merger.

OPERATIONS

One of the worst winters in history was recorded in 1969. Heavy snow covered almost all of the Burlington Northern system. The winter was characterized by hazardous operating conditions which made it extremely difficult to maintain a reasonable standard of service. The adverse weather made it necessary to operate shorter trains, and snow removal was a continuous challenge to men and equipment. Operating expenses soared.

The physical volume of activity, measured by revenue ton miles, was up 6.4 percent in 1969 over the prior year due to increased shipments of grain, iron ore and taconite pellets, and chemicals and aluminum.

Total expenses related to operations in 1969 were up $57.8 million over 1968. Increases were common to all segments of operations — transportation, maintenance-of-way, structures, and maintenance of equipment. Equipment and joint facility expenses increased substantially due to a higher level of activity of cars moving on a mileage payment basis. Interstate Commerce Commission prescribed payments, effective June 1, 1970, retroactive to September 1, 1969, will have further adverse effect on equipment rents.

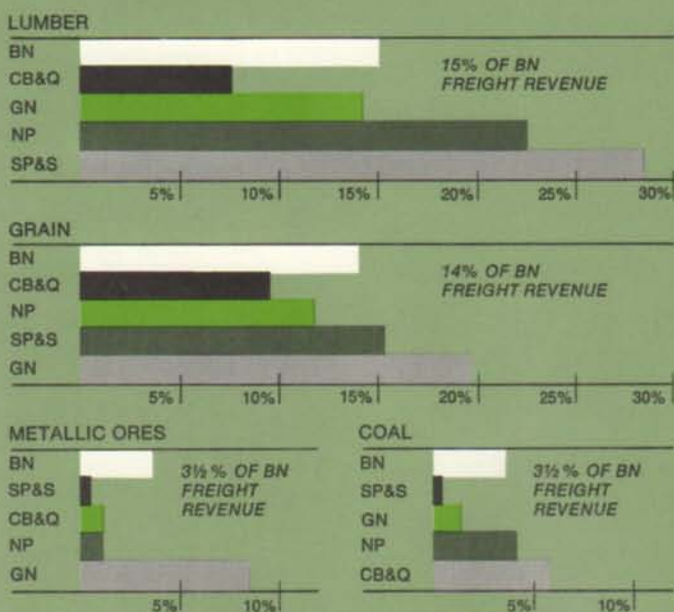
Shortages for various types of cars occurred throughout the entire year. Wide-door

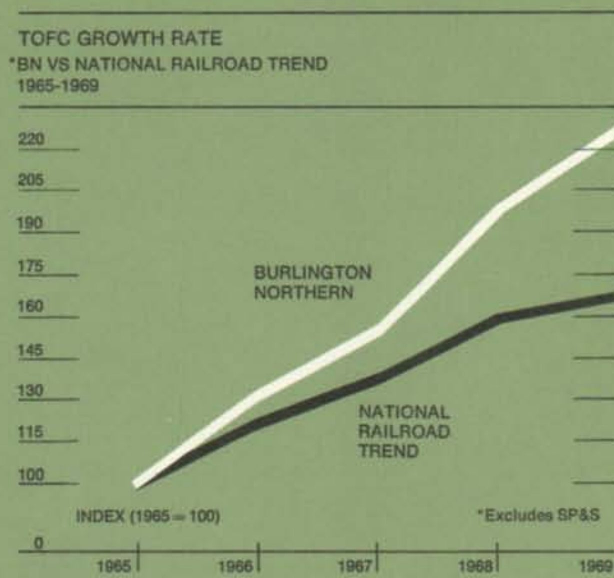
Clear tracks and all signals go toward a bright future . . . this is Burlington Northern Inc., the nation's newest transportation system.

MERGER BENEFITS

More Stable Revenue Base — The freight revenue base for the Burlington Northern will be broader than any of the individual merger partners, with less reliance on individual commodity groups which in the past have tended to fluctuate considerably from year to year.

Evidence of this stabilizing influence can be found in the following key groups, which become much less important to the revenue picture of the Burlington Northern than they have been to some of the individual railroads (revenues are expressed in terms of per cent of total freight revenue as projected for 1970).



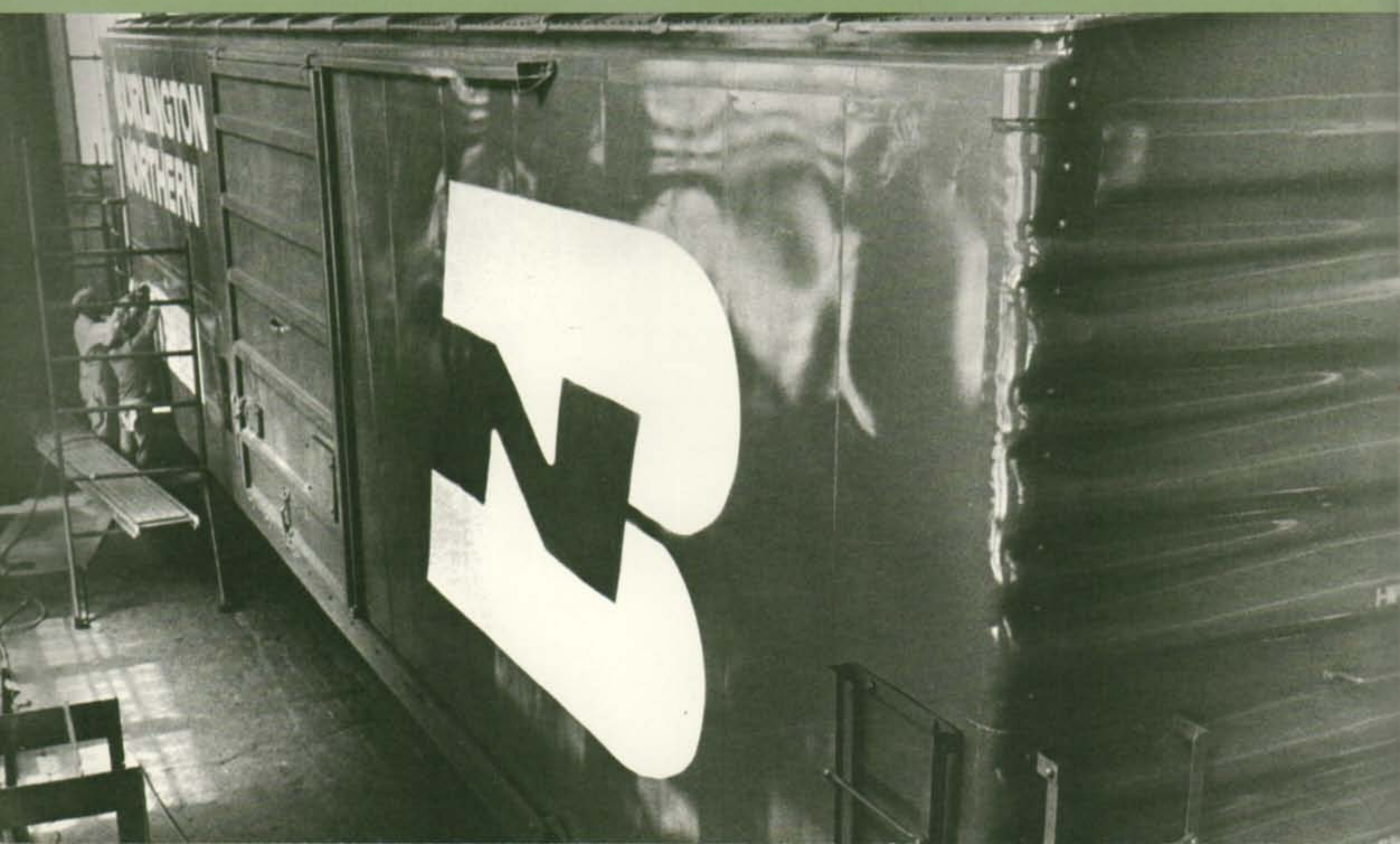


Note: *Comparison based on revenue. Source of national railroad data is ICC; 1969 estimated on basis of change in number of trailers loaded.*

Burlington Northern's above average trailer-on-flatcar (TOFC) revenue in 1969 can be attributed to a vigorous program promoting this type of handling.

Aggressive merchandising by TOFC representatives has created increased shipper-recognition of the convenience and advantage of door-to-door delivery, made possible through the movement of trailer-on-flatcar.

In-depth market research aimed at expanding TOFC use in present markets and exploring new markets is part of a continuing program to develop the full potential of this coordinated transportation service.



cars suitable for paper and lumber loading were in short supply. Cars suitable for grain loading were short in the early months and again in the last quarter of the year and this has continued into 1970. The AAR and the ICC have both issued special car service orders, but these have generally been ineffective in relieving the shortages.

Passenger revenues were down slightly in 1969. Authority was received from the ICC to discontinue passenger service between Duluth and Staples, between Fargo and Winnipeg, and between Omaha and Lincoln and Lincoln to Billings which will produce annual savings of $1,090,000. Application to discontinue the Mainstreeter was denied and the losses sustained by this train in 1969 were approximately $3.5 million. Application was made to the ICC in 1969 to eliminate one pair of trains between St. Paul and Fargo, and another pair between St. Paul and Winnipeg, as well as rerouting the Western Star and establishment of train service between Grand Forks and Winnipeg to connect with the Western Star. These changes, approved early in 1970, will reduce losses from passenger train operations by $1.7 million.

Effective January 1, 1969 the railroads took over operation of sleeping car service from the Pullman Company and the maintenance of the cars was taken over on August 1, 1969. Since that date Burlington Northern is required to maintain its own sleeping cars; however, sleeping car revenues now accrue to Burlington Northern, rather than to the Pullman Company.

A new Suburban Services Department was created to promote commuter service in the Chicago area. Extensive TV advertising and posters featuring Burlington Northern-served communities have been used in the program to attract more patrons.

Improved service to customers has been provided at a number of points on the Burlington Northern through the use of mobile agencies. Where this service is in effect, agents are provided with a suitable vehicle which is, in reality, a mobile office. Thus equipped, these agents serve customers over a prescribed route which includes several stations. This new concept of station service has been extremely well received.

CAPITAL EXPENDITURES

Capital expenditures, excluding subsidiaries, totaled $82.6 million in 1969, $42.7 million was spent for new equipment, and $39.9 million for roadway improvements.

Roadway improvements in 1969 include placement of 172.8 miles of new rail, 70.8 miles of secondhand rail, and major ballasting projects.

Centralized traffic control (CTC) was installed on 76.5 miles of line and other signal improvements were made on an additional 185 miles. Forty-two hot box detectors were installed and highway crossing protective devices installed at 80 grade crossings.

Several yard improvement projects were progressed during the year including: upgrading of the classification yard at Pasco, Washington, a new hump yard and car repair facility at Seattle (Interbay), modernization of the yard at Missoula, Montana, a new freight house and Trailer-on-Flatcar facility at South Seattle, enlargement of the yard and installation of new track scales at Longview, Washington. A new operational center was installed at Laurel, Montana. New diesel servicing facilities were installed at Minneapolis.

Communication improvements during the year include completion of the microwave from St. Paul to Seattle. This along with the microwave from Chicago to Lincoln, Nebraska, provides Burlington Northern with a major facility for communication of vital data. Two-way radios were acquired to improve communications in many operating areas. In some areas where overhead communication lines were subject to breakage by slides, they were replaced by buried cable.

After completion of the first 21.3 miles of the Wahluke Slope branch line, construction was terminated due to the curtailment of government funds available for irrigation development of the western section. Rail service, however, will be available along the portion of the line already completed. An 18-mile spur line to serve a large bentonite deposit was completed southwest of Glasgow, Montana.

Workmen apply BN insignia preparing rolling stock to display Burlington Northern identification across the breadth and length of the country.

Fifty-four new high-horsepower locomotives were added to the Burlington Northern fleet in 1969, replacing older, high-maintenance-cost units. The freight car fleet was increased by 2,455 units and included 1,105 boxcars, 500 open top hopper cars, 331 wood chip cars, 30 versa-deck cars, 150 plain flat cars, 35 airslide cars, 26 high-cube boxcars and 23 special cars to handle components for the new Boeing 747 aircraft. Two hundred and fifty mechanical refrigerator cars were purchased, 200 of which were leased to the Western Fruit Express, a subsidiary of Burlington Northern. Five gondola cars equipped to handle coil steel were acquired in 1969.

Program for 1970

Expenditures of $106.5 million for capital improvements are planned for 1970. The program includes $73.3 million for equipment and $33.2 million for roadway improvements.

Planned for the equipment program are 48 high-horsepower road locomotives and 15 switch engines. New freight equipment will include 700 boxcars, 950 covered hoppers, 400 open top hoppers, 200 gondolas, 200 flat cars and 100 insulated boxcars. Specialized cars include 50 mechanical refrigerator cars, 51 refrigerator cars designed to handle bulk commodities and 25 airslide cars.

The projected track program for 1970 includes 185.4 miles of new rail relay, 72.9 miles of secondhand rail relay, major ballasting and new cross ties.

Yard construction projects will be progressed at Kansas City, Minneapolis and Pasco, Washington. Connections between the constituent company's lines will be constructed to facilitate the flow of traffic over preferred routes. Engineering will be carried forward on new connections and a major bridge project over Latah Creek at Spokane, Washington.

Other improvements include construction of 112.5 miles of centralized traffic control, installation of additional hot box detectors and further upgrading of the communications system.

A 59-mile line change between Ripley and Stryker, Montana, is being built in connection with the Libby Dam on the Kootenai River. This new line will be operational by the end of 1970.

MARKETING

Freight revenues for Burlington Northern in 1969 grew approximately $49 million, or 6 percent. About one-half of the increase was attributable to general rate increases. Other changes in the major commodity groups accounting for 83 percent of the total change, including certain freight rate increases, are shown in the table below:

Commodity	Revenue Change 1969 vs. 1968
	($ Million)
Grain	+20.2
Food Products	+ 8.3
Chemicals & Allied Products	+ 6.6
Coal	+ 4.7
Freight Forwarder & Shipper Assoc.	+ 3.2
Metallic Ores	+ 2.5
Primary Metal Products	+ 1.3
Motor Vehicles	+ 1.2
Lumber	− 8.8
Ordnance	− 5.9
Total of These Commodities	+33.3

Some increases are due to accelerated activity in these particular commodities. The decrease in the movement of lumber is principally due to the drop in single family housing. The reduction in ordnance is a result of de-escalation in Viet Nam.

Several marketing projects which came to fruition in 1969 were responsible for part of the substantial increases. One example was the unit train movement of coal from Colstrip, Montana, to the Minnesota Power and Light Company at Cohasset, Minnesota. Another noteworthy movement to become firmly established in 1969 was the unit train movement of potash from Northgate, North Dakota, to Minnesota and Illinois destinations on Burlington Northern. This service was expanded in 1969 to include several new destinations in Ohio and Virginia, as well as transhipment via the ore docks at Superior, Wisconsin, where the fertilizer was loaded into Great Lakes freighters.

Mounting emphasis on air pollution has

Burlington Northern has tremendous yard facilities at Cicero, just out of Chicago, the transportation hub of the country.

Equipment gets a grueling test in the Montana Rockies where heavy snows come early and stay late.

created promising possibilities for increased development of Wyoming and Montana coal deposits, since these coals are low in the sulphur content which is objectionable to pollution control agencies.

A significant plus for Burlington Northern in 1969 was the continued rise of trailer-on-flat-car revenue, at an annual rate of approximately 18 percent, compared to the national average of approximately 5 percent. Burlington Northern marketing specialists are currently making an intensive analysis of this area to exploit every opportunity to capitalize on this potential.

While the new marketing effort at Burlington Northern has already produced substantial contributions to the revenue base, of even greater significance for the long-term progress of the company are programs now in the development stage, in areas such as:

1) Alaska, where the discovery of vast oil reserves at Prudhoe Bay promises to rapidly accelerate the growth of the economy.
2) The fast-growing import/export trade between the Pacific Northwest ports and mid-continent markets which can be effectively handled by an overland rail route providing fast, low-cost transportation.

Many new programs are aimed at capitalizing on the excellent expansion opportunities for major industries in the territory served by Burlington Northern. Long-term revenue projections indicate that well over half of BN revenue will be derived from the following industries, all of which are expected to experience growth in the 1970's: chemicals and fertilizers, aluminum, housing, processed foods, energy, paper and paper products, and motor vehicles.

A key requirement toward achieving improved penetration of available markets is full and practical knowledge of the market environment which will prevail in the 1970's. To accomplish this, an information system is being developed to help identify opportunity areas and measure the new company's competitive position in those markets selected as attractive to pursue.

The effects of merger will provide important benefits to customers, and can be used to advantage to maintain and improve market penetration. Some of the more significant benefits are:

1) Faster freight service will be achieved by utilizing the best route and terminal facilities of the company to provide a unified service between the Middle West and the Pacific Coast.
2) Car supply will be improved. Car days will be saved by using new shorter routes and the most efficient terminals, as well as avoiding time-consuming interchanges at common points. A central transportation officer for the new system can distribute more efficiently the different types of cars needed to fulfill seasonal requirements in different areas and special needs of shippers.
3) More valuable transit and diversion privileges will be available. The new single system removes many restraints on stop-off privileges, as well as providing wider routing options than previously existed on the individual lines. An important objective of our marketing plan is to capitalize on these improved service routes which justify our seeking the longest hauls possible from our shippers.
4) Electronic classification yards, centralized traffic control systems, improved communication devices, and better maintenance capabilities are some examples of the areas in which the consolidation will create capabilities to serve Burlington Northern customers better than ever before.
5) The freight revenue base for the Burlington Northern will be broader than any of the individual merger partners. There will be less reliance on individual commodity groups which, in the past, have tended to fluctuate considerably from year to year on the individual lines.

INDUSTRIAL DEVELOPMENT

Under the banner of the new Burlington Northern, the combined Industrial Development, Real Estate and Agricultural departments of the merged companies add a broader dimension to the potential for growth in this area of activity. This consolidation of

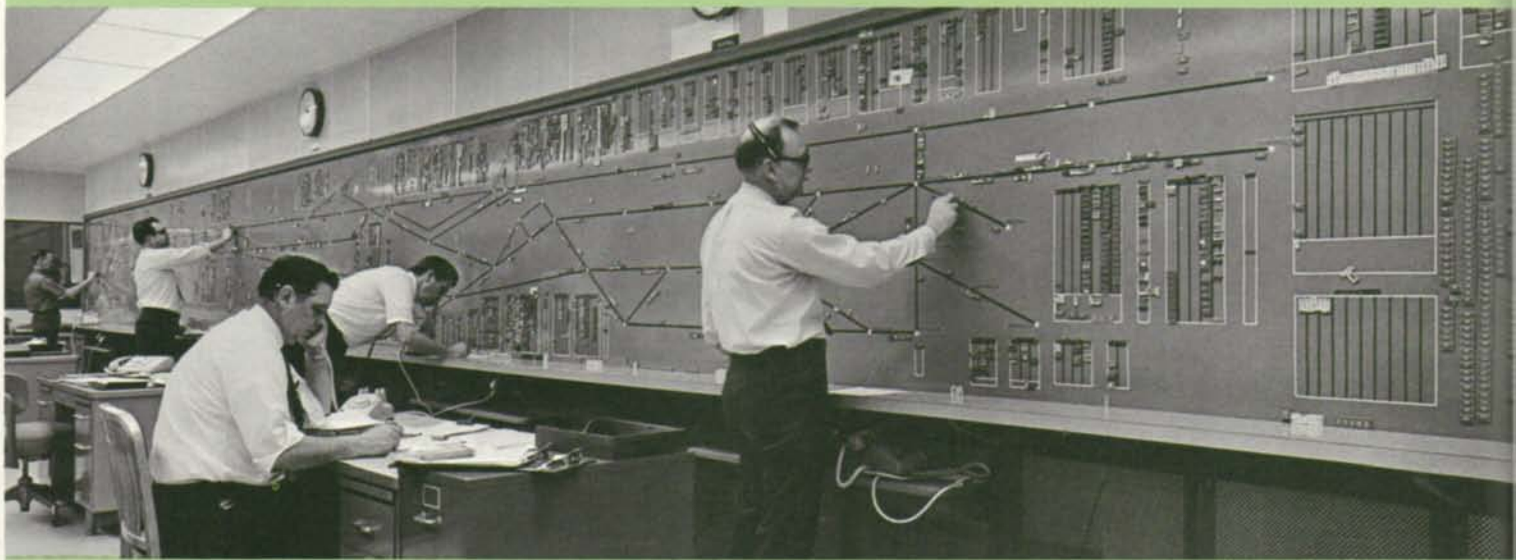
Quarter-mile-long sections of welded rail are used in Burlington Northern's main line track relay program.

Trailer and container transloading is accomplished speedily and efficiently by mobile "piggypack" unit.

Hydraulic car tilting device speeds unloading at chip plant and maximizes use of wood chip cars.

The demand for containerized shipments continues to increase, particularly among import-export shippers.

Thousands of people daily commute between Chicago and its suburbs.



Giant transportation control board provides up-to-the minute information on placement of all of the company's motive power.

The company's huge docks at Superior, Wisconsin, can handle iron ore or dry chemicals for transhipment via Great Lakes freighters.

resources and expertise improves the new company's position financially and geographically in attracting new industries to trackside locations and maximizing income from real estate development sources.

Burlington Northern now has approximately 23,000 acres of prime industrial property available for rail-oriented development. In addition, large areas of privately owned lands are available and/or are being developed for industrial use.

Listed are some of the principal industries located on Burlington Northern during 1969:

Northland Industrial Park is constructing a 310,000-square-foot distribution warehouse at North Kansas City, Missouri, at an estimated investment of $5 million.

National Accelerator Laboratory started construction of a $250 million atomic energy research center at Batavia, Illinois. Construction is expected to take 7 to 8 years.

Quincy Space Center established a warehouse and distribution center at Quincy, Illinois, in caves from which limestone has been extracted. This new facility has a total of 2½ million square feet of space available.

Holly Sugar Company located sugar beet loading facilities at Newman, Vance and Kelso, North Dakota, for the handling of beets to the Holly refinery at Sidney, Montana.

Evans Products Company, Particle Board Division, began construction of a plant at Missoula, Montana. Estimated cost is between $7 and $8 million. An industrial spur was constructed to provide service to the plant.

Harvey Aluminum Company started construction of an aluminum reduction plant at Cliffs, Washington, scheduled for completion in the latter part of 1971. The plant is expected to have a capacity of 115,000 tons annually.

Dow Chemical Company began construction of a magnesium-chlorine manufacturing plant at Dallesport, Washington. The plant will have a capacity of 25,000 tons of magnesium and 50,000 tons of chlorine annually.

Biles Coleman Lumber Company is constructing a new veneer plant at Omak, Washington, at an investment of over $1 million.

NATURAL RESOURCES

Timber

Gross revenue from timber and log sales in 1969 was $8,144,000 and $7,100,000 after deduction of logging costs which were substantially higher than 1968 due to a higher volume of log production. Comparable income in 1968 was $6,296,000 and $6,000,000 respectively.

Aerial seeding of 1,674 acres and hand planting of 219 acres in western Washington was accomplished in 1969. Approximately 2,000,000 seedlings will be available for planting in the 1970-71 season.

An expanded road construction program is under way to insure continuity of our timber harvesting operations and facilitate salvage of insect and disease infected timber in the more remote areas.

A reinventory of all company forest lands was begun in the summer of 1969 in western Montana where 175,000 acres were mapped by the company aerial photography group and ground checked by field crews. This updating program will continue until comprehensive survey information is available for all company forest land holdings.

Two land exchanges with the U. S. Forest Service involving 2,320 acres were consummated in 1969 and additional exchanges encompassing 5,600 acres were pending at year-end. Other exchanges involving about 25,000 acres, to consolidate company lands for more effective and economical management, are under consideration.

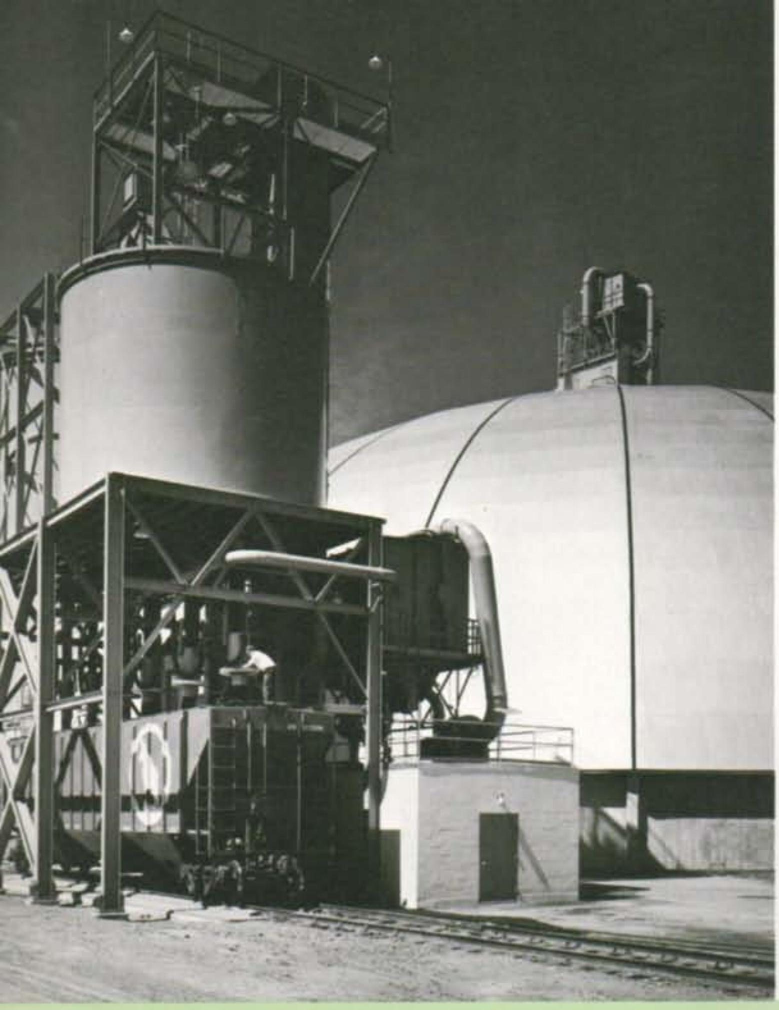
Land Development

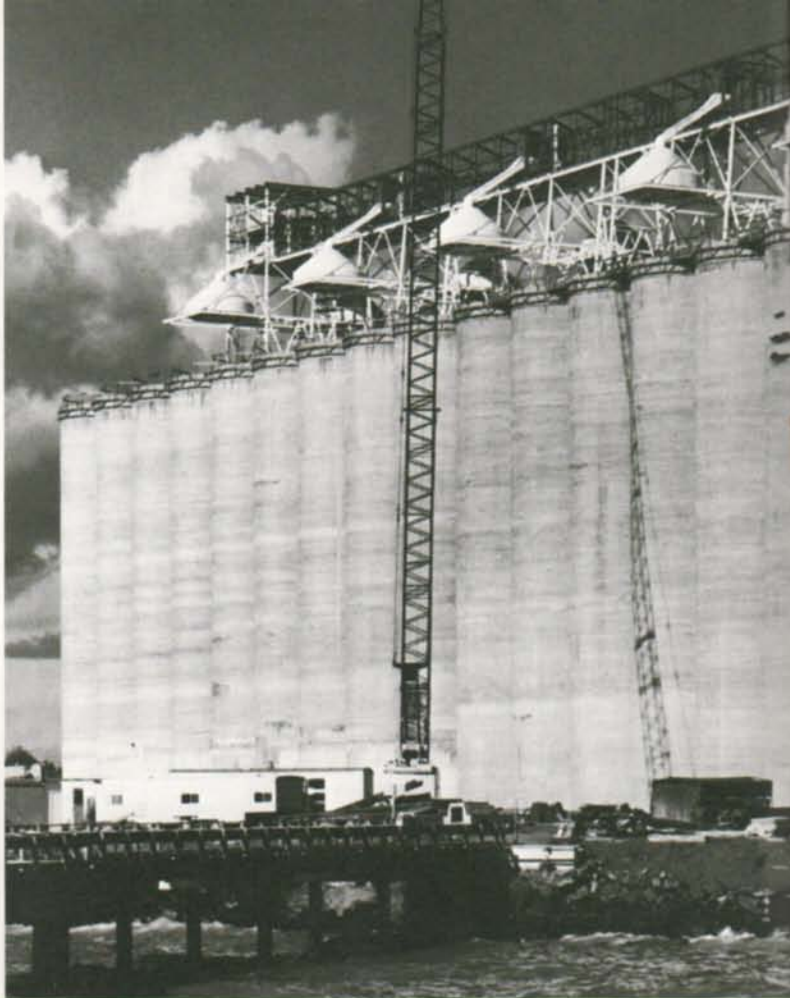
Following preliminary engineering work in 1969, development of summer homesites on Lake Pend Oreille in northern Idaho continues with field work on roads and sewer and water lines to start in 1970.

Minerals

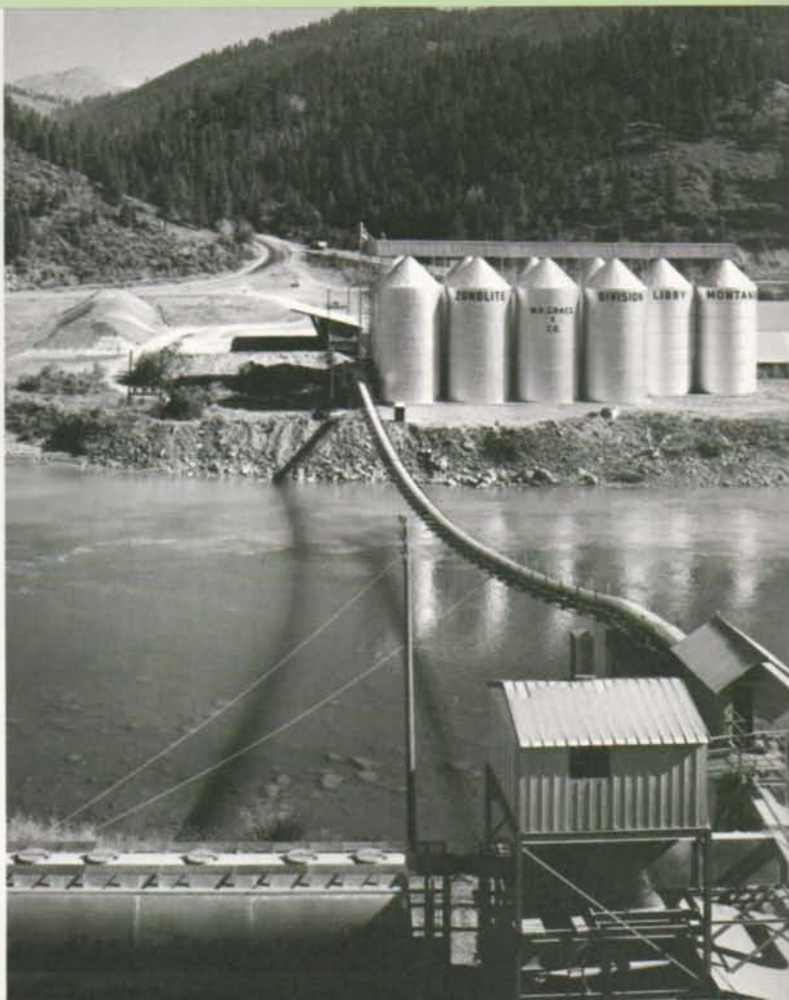
Income of $2,078,000 from the leasing and sale of minerals in 1969, the highest in more than a decade, was up $1,180,000 over 1968. This increase is largely attributable to payments received for new coal leases and exploration permits in Montana.

Iron and taconite income from properties on the Mesabi Range increased to $630,000 in 1969 compared with $480,000 in 1968. Ore





New industries of many kinds were established on Burlington Northern industrial properties in 1969.



production increased from 3,751,000 tons in 1968 to in excess of 4,000,000 tons in 1969.

Coal income of $1,306,000 exceeded that from iron ore income for the first time. Coal production continued from the Colstrip, Montana mine, which was reopened in 1968 and from a new mine in the same area developed by Peabody Coal Company. Coal shipments are by unit trains to power companies at Billings, Montana, and Cohasset, Minnesota. Production in 1969 was 850,000 tons compared with 430,000 tons in 1968.

Continuation of the exploration and drilling program started in 1968 resulted in the delineation of approximately 350,000,000 tons of sub-bituminous coal reserves and the staking of 30 molybdenum claims in Montana. Geophysical and drilling exploration was continued on copper-nickel prospects in northern Minnesota by lessees.

Grazing and Cultivation

Gross revenue from grazing and cultivation in 1969 was $460,000 compared with $435,000 in 1968.

Oil Development

Revenue from oil development in 1969 was $8,611,000. The $221,000 increase over 1968 resulted almost entirely from an increase in the price of crude oil.

Operating results of the Oil Development Department for the past five years are summarized in the following tabulation:

Year	Gross Revenue	*Expenses	Net Income Before Federal Income Taxes
1965	$6,707,000	$1,930,000	$4,777,000
1966	6,918,000	2,416,000	4,502,000
1967	8,430,000	2,628,000	5,802,000
1968	8,390,000	3,268,000	5,122,000
1969	8,611,000	3,656,000	4,955,000

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

Charges to capital account for lease acquisitions and oil field equipment, not included in the tabulation above, amounted to $1,040,000 in 1969 compared with $1,029,000 in 1968.

Secondary recovery operations, accelerated production (where feasible) and maintenance of maximum efficient rates of production in all wells resulted in 1969 oil production closely approximating the level of production in 1968.

SUBSIDIARIES

Plum Creek Lumber Company

Lumber and plywood manufacturing operations ran at full capacity during the first quarter of the year when demand and prices were high. The second quarter was marked by a rapid price decline which continued to the end of the year and resulted in some curtailment in operating schedules. Despite gross sales of $23,069,000 in 1969, profit before federal income tax declined from $3,853,000 in 1968 to $2,436,000. Plum Creek paid a dividend of $1,000,000.

Emphasis on cost reduction and higher recovery from the conversion of logs to end products, achieved in part through capital improvements made over the past two years, is being continued at all manufacturing operations. Barking and chipping facilities were installed in 1969 to recover wood chips from the sawmill at Fortine, Montana. Preliminary studies have been made of the feasibility of constructing a particleboard plant at Columbia Falls, Montana, to utilize wood shavings and sawdust from all manufacturing operations.

The Monad Company

A wholly owned subsidiary active in non-rail businesses, the Monad Company acquired Northern Airmotive in 1968. This is a "fixed base operation" serving corporate and private aviation through sales of aircraft, parts, avionics, fuel, hangar storage, line service and aircraft maintenance. Northern Airmotive provides service at the Minneapolis-St. Paul International Airport and at the St. Paul Downtown Airport.

In 1968, Monad entered into a joint venture with the R. A. Watt Company, a subsidiary of Boise Cascade Corporation, to develop over 500 residential homesites on 170 acres of Burlington Northern land near Seattle. Lots for 100 homes have been sold. Sewer and water lines will be installed and model homes erected early in 1970.

The results of other subsidiary and affiliated companies are included in the financial pages.

MANAGEMENT SERVICES

Over the past few years, management services departments of the constituent companies were carefully studied and their functions correlated toward merger.

Teams from each of the component lines worked together to achieve a compatibility of data processing equipment and organization that would provide the most effective and workable management systems for the Burlington Northern. The programs selected were considered best fitted to the expanded needs of the new company. Burlington's program for customer notification on car locations and sales reports, Great Northern's stockholder records program, and Northern Pacific's car accounting program, are examples.

Management's goal of providing better service than was collectively available before merger has been the most important consideration in the planning between data processing groups.

Much of the foundation work on the establishment of common coding systems was completed before merger. A common series of numbers to identify stations on all lines that would become Burlington Northern was developed and adopted two years ago. Common codes to identify car types and car status, shippers and consignees and for all of the important clerical routines performed in the field in connection with data processing were developed and are in use.

The component companies' input/output devices in the field are basically similar and data transmitted from the field for central processing, as well as reports going back to the field, have a commonality. Procedures were developed to support operations on merger-day, the first year after merger and for the long term which will provide Burlington Northern with the most progressive systems available, using the most modern computer equipment.

Burlington Northern has the facilities for rapid, efficient and effective transmission of data in its huge microwave system. There is one broad band microwave system from St. Paul to Seattle, one from Portland to Seattle, and another from Chicago to Lincoln, Neb. Only minimal leasing of microwave systems will be necessary to insure that all data can be transmitted expeditiously between any major points on the 27,000-mile rail complex.

PERSONNEL

Continuing emphasis was placed on training and manpower development of supervisors and managers of the constituent companies in 1969. Programs were initiated in management, human relations, leadership skills, work scheduling for supervisors and middle management officers, and sales training for marketing and sales personnel.

The college recruitment program of the constituent companies was accelerated and will be vigorously pursued to attract the best possible manpower to the new company.

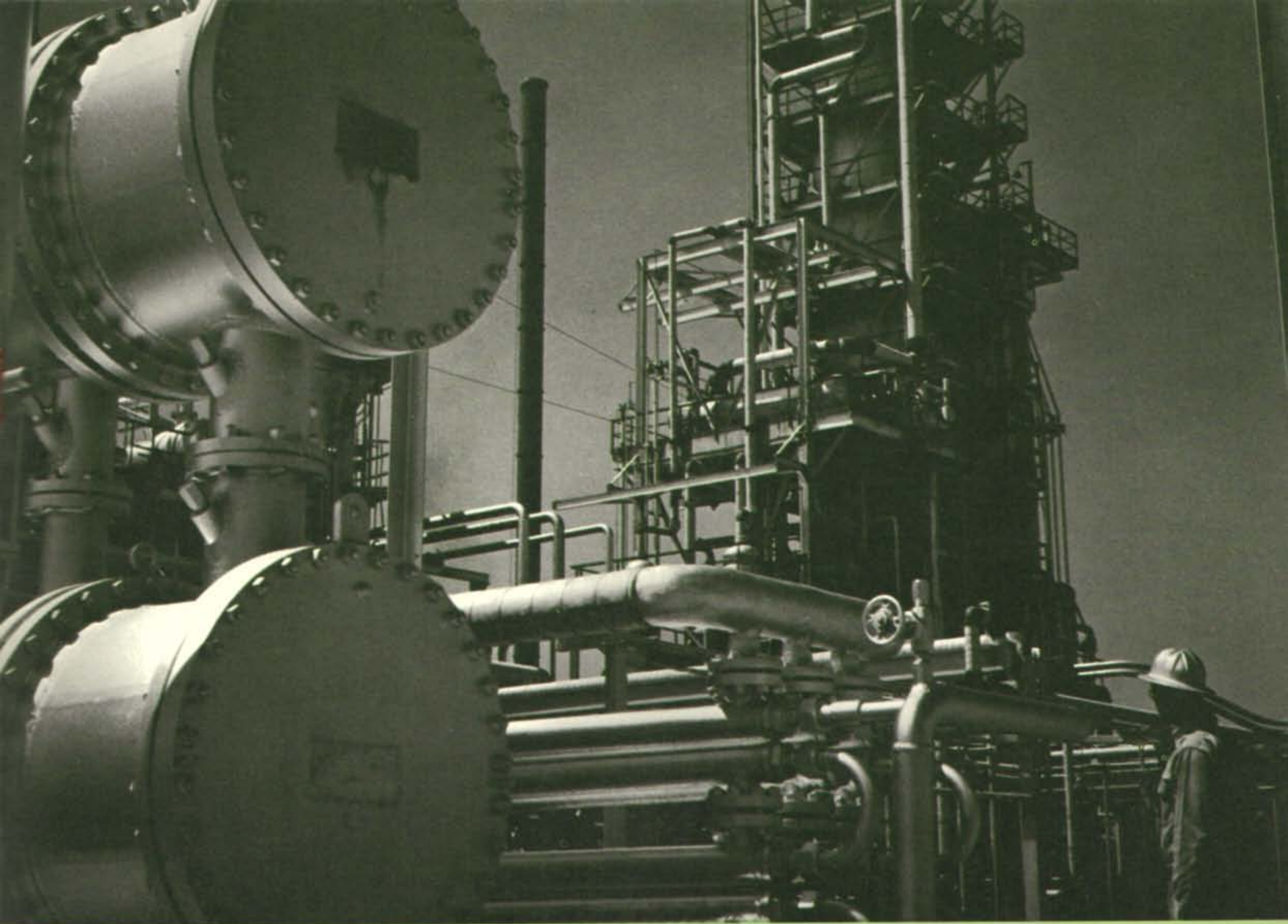
Improvements in the salary administration program for exempt employees and officers were made. A comprehensive salary administration program is being developed for the Burlington Northern.

The constituent companies played an active role in 1969 in the National Alliance of Businessmen's program to hire and train disadvantaged individuals from the ghetto areas. There was also a training program in Chicago, under a contract with the Federal Government, to train 2,000 minority members and hard-core unempolyed in basic education, language and mathematics.

Employees of the Burlington Northern continue to rank with the nation's leaders in railroad safety. Comprehensive programs have been in operation in all of the companies to reduce the number of injuries to employees. The present high degree of emphasis and interest will be maintained.

An award winning film entitled "Paced to Live," directed at young drivers was viewed by approximately 120,000 people during the year. Over 200 copies of the film have been purchased by other railroads and industries.

The company's approximately 1,110,000 acres of commercial forest land is managed on a sustained yield basis. Cut over areas are reseeded for future growth.



Production from wells on Burlington Northern properties totalled 2,631,000 barrels of oil in 1969.

FINANCIAL

Ownership of Burlington Northern is widespread. Shareholders in all 50 states, as well as 24 foreign countries, are represented among the 74,921 shareholders in whose names the stock is held. In addition, many major insurance companies and mutual funds have invested in the railway's securities, thereby giving even broader participation in ownership of the company.

During 1969, long-term debt outstanding in public hands of the companies making up Burlington Northern decreased by $30,573,000. Mortgage bonds decreased $4,019,000, while other funded debt, mostly equipment obligations, decreased by $26,554,000. During the year, various conditional sale agreements and equipment trusts were sold at interest costs varying from 7.34 to 9 percent. The debt outstanding 1965-69, and maturities during the next five-year period 1970-74 are as shown in the following tables.

Long Term Debt
(in thousands of dollars)

As of Dec. 31	Funded Debt	Equipment and Other Obligations	Total Funded Debt
1965	$505,129	$285,808	$790,937
1966	495,096	332,417	827,513
1967	492,366	361,099	853,465
1968	486,658	357,868	844,526
1969	482,639	331,314	813,953

Long Term Debt Maturities
(excluding sinking fund requirements)
(in thousands of dollars)

	Funded Debt	Equipment and Other Obligations
1970	$43,320(1)	$47,737
1971	—	44,189
1972	—	40,883
1973	14,155	38,151
1974	—	34,319

Incident to merger on March 2, 1970, funds were placed on deposit to redeem, on July 1, 1970, the $16,197,000 principal amount of Northern Pacific Refunding and Improvement Bonds Series A, 4½ percent, due July 1, 2047 at a price of 110.

For the future, the principal refunding and financing medium will be Burlington Northern's new consolidated mortgage, which is secured by a lien on substantially all railroad properties owned by the merged companies.

(1) See note 4 on page 30.

While most of the rolling stock acquired during 1969 was financed with conditional sale agreements and conventional equipment trusts, leasing was employed under certain circumstances, particularly for locomotives and certain rebuilt freight cars. The total of lease payments in 1969 for rolling stock was $7.9 million. These payments will continue on a declining basis through 1989.

In connection with the merger on March 2, 1970, the Interstate Commerce Commission permitted a charge to 1969 net income of $33,258,000 net of related Federal income taxes. This charge reflects the expected merger related retirement of duplicate facilities (reflected in the property reserves on the balance sheet) and a recall of certain furloughed employees (reflected in the casualty reserves and other liabilities on the balance sheet). The establishment of this reserve will avoid the distortion of future operating results as these non-recurring operating charges are made during the next five years as merger changes are accomplished.

Depreciation charges, which are included in maintenance charges as a non-cash expense, are an important source of the cash for new equipment. During 1969, depreciation totaled $68.5 million and substantially exceeded the $47.6 million required for principal payments on maturing equipment debt.

The companies have taken advantage of accelerated depreciation for tax purposes and other adjustments permitted by law to reduce income tax payments. The net effect of this tax accounting is shown in the following table:

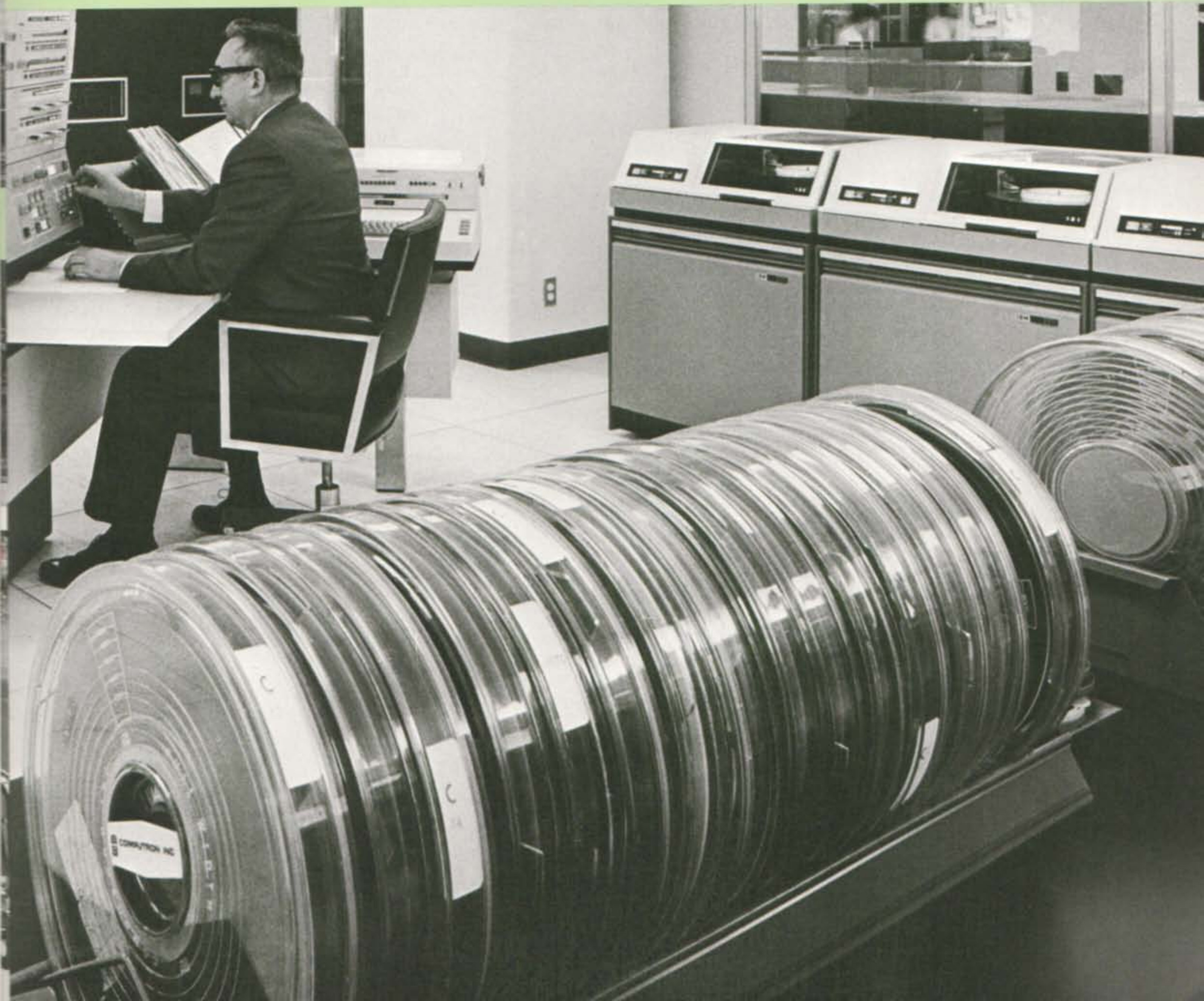
Estimated Net Increase in Net Income
Due to Accelerated Depreciation, Guideline Lives, and Amortization

	Millions	Per Share
1965	$18.8	$1.52
1966	13.8	1.12
1967	9.5	.77
1968	5.9	.48
1969	10.3	.83

In addition, income taxes were reduced $5,260,000 in 1969 by application of the investment credit. The tax laws were changed in 1969 to eliminate this credit on equipment purchased after April 18, 1969. However, Burlington Northern had unused credit car-

Seminars and training programs are a regular part of the manpower program.

Highly sophisticated computers are used in many areas of operations to speed information and data wherever needed.



ried forward as of December 31, 1969 of approximately $32 million, subject to Internal Revenue Service review. This amount can be used in future years, subject to the restrictions of the Tax Reform Act of 1969, to reduce income tax payments.

LABOR RELATIONS

National wage settlements between the railroad industry and the unions in 1969 were a continuation of settlements negotiated in 1967 and 1968. Increases granted in 1969 ranged from 5 to 12½ percent along with additional percentage points to correct skill inequities and there were, also, minor improvements in fringe benefits.

The nation was threatened by an industry-wide shutdown late in 1969 when shopcraft employees demanded more advantageous treatment than that accepted by other unions. All procedures of the Railway Labor Act, as well as an investigation and report by an emergency board appointed by President Nixon, were exhausted before tentative agreement was finally reached. This agreement conformed with the 1969 wage pattern and established a wage pattern for 1970. The agreement was submitted to shopcraft employees and ratified by all but the sheet metal workers, the smallest of these unions and the only one to veto the contract proposal. Negotiations were resumed early in 1970 and at the date of this writing, the dispute has not been settled.

During 1969, merger negotiations neared completion with unions representing organized employees of the Burlington Northern component lines. First to be resolved was the basic merger agreement to provide employment security for employees. A second phase achieved "implementing agreements" which provide for the change and consolidation of seniority districts and rosters and elimination of impediments to merged company operations. Final negotiations are aimed at new basic agreements governing Burlington Northern employees.

Through these negotiations and settlements, opportunities for expediting consolidation of services and facilities are impressively greater.

LEGAL MATTERS

Legislation

Legislation of vital consequence to the railroads in 1969, was the so-called Tax Reform Act which repealed the 7 percent investment credit. The adverse effect on purchases of new equipment was partially offset by a provision of the act permitting railroads to amortize, for tax purposes, rolling stock and locomotives over a period of five years. While this provision should be helpful in relieving equipment shortages, as described elsewhere, the problem remains.

Congress amended the Hours of Service Act, shortening permissible time on duty of certain operating employees. This will result in some increase in operating costs and complications in turning power and crews, particularly on branch lines. Since the amendment does not become effective until year-end and duty-time reductions are scheduled in two phases, its effect will not be immediate or abrupt.

Litigation

Successful culmination of the merger as described on page 23 of this report was the most significant litigated matter Burlington Northern's predecessor companies had to deal with in 1969.

Important, too, was the general freight rate increase case tried before the Interstate Commerce Commission. It involved the railroads' request for general freight rate increases at varying levels which, with some notable exceptions, were approved. In October, 1969, the railroads proposed a further 6 percent increase which was permitted to go into effect subject to further proceedings.

Annual reports of Burlington Northern's constituent companies have frequently mentioned protracted litigation involving per diem rentals on freight cars. A most important case involving an Interstate Commerce

CORPORATE STRUCTURE OF BURLINGTON NORTHERN INC.

- **BURLINGTON NORTHERN INC.**
  - **FORMER GREAT NORTHERN RAILWAY COMPANY**
    - Western Fruit Express Company
    - (Pacific Coast R.R. Co.—Merged into B. N. Inc.)
    - Glacier Park Company
    - Superior Transfer Company
    - Minneapolis, Anoka & Cuyuna Range R.R. Co.
    - Delta Alaska Terminal Ltd. (60%)
  - **FORMER GREAT NORTHERN RAILWAY COMPANY and FORMER NORTHERN PACIFIC RAILWAY COMPANY**
    - The Lake Superior Terminal and Transfer Railway Company (33.33% each G. N. & N. P.)
    - The Midland Railway Company of Manitoba (50% each G. N. & N. P.)
  - **FORMER NORTHERN PACIFIC RAILWAY COMPANY**
    - Cuyuna Realty Company
    - The Duluth Union Depot & Transfer Company
    - Northern Pacific Transport Company
      - Western Motor Express
    - Walla Walla Valley Railway Company
    - Plum Creek Lumber Company
    - Lemhi Telephone Company
    - Monad Company
      - Northern Airmotive Inc.
        - Mercury Aviation, Inc.
        - Airframe Rebuilders, Inc.
    - Delta Alaska Terminal, Ltd. (6.67%)
  - **FORMER CHICAGO BURLINGTON & QUINCY RAILROAD COMPANY**
    - Burlington Equipment Co.
    - Burlington Refrigerator Express Company
    - Burlington Truck Lines Inc.
    - The Colorado and Southern Railway Company (74.72%)
      - Fort Worth and Denver Railway Company
    - St. Louis & Kansas City Land Company
    - Winona Bridge Railway Company (66.67%)
  - **SPOKANE PORTLAND AND SEATTLE RAILWAY COMPANY -(Leased by B. N. Inc.)**
    - Oregon Electric Railway Company
    - Oregon Trunk Railway
    - Ruth Realty Company

All the above companies appear in the financial statements.

Commission order prescribing rates on a so-called time-mileage basis was recently sustained by the United States Supreme Court. Application of the formula will begin on June 1, 1970. The mileage element of the formula is expected to increase car hire costs for long haul western roads, while the time element is not high enough to encourage prompt car handling. An alternative formula is now before the Congress.

MERGER

Merger of Great Northern, Northern Pacific, Burlington, and certain other subsidiaries into Burlington Northern Inc., brings to fruition a long sought goal.

Informal merger conversations in 1955, among corporate officers of the companies involved, led to a study in 1956 to determine the benefits of consolidation.

The overwhelming economic advantages of consolidation, established by the study, warranted a decision to merge and negotiations as to terms of stock exchange ratios were reached.

Formal merger agreements were signed in January, 1961, and approved by Great Northern and Northern Pacific stockholders later that year. Application for approval of the merger was filed with the Interstate Commerce Commission on February 17, 1961. The first hearing before a Commission examiner was held in October, 1961. Subsequent hearings were held in a number of cities in the territories of the companies involved. The last hearing was concluded in July, 1962. Two years later, the hearing examiner recommended that the merger be approved. This was followed, however, by oral arguments before the 11-member Interstate Commerce Commission and on March 31, 1966, by a six to five decision, the agency denied the application to merge. Reasons given for the denial were, effects the transaction would have on employees, and reduction in railroad competition which it was thought might result.

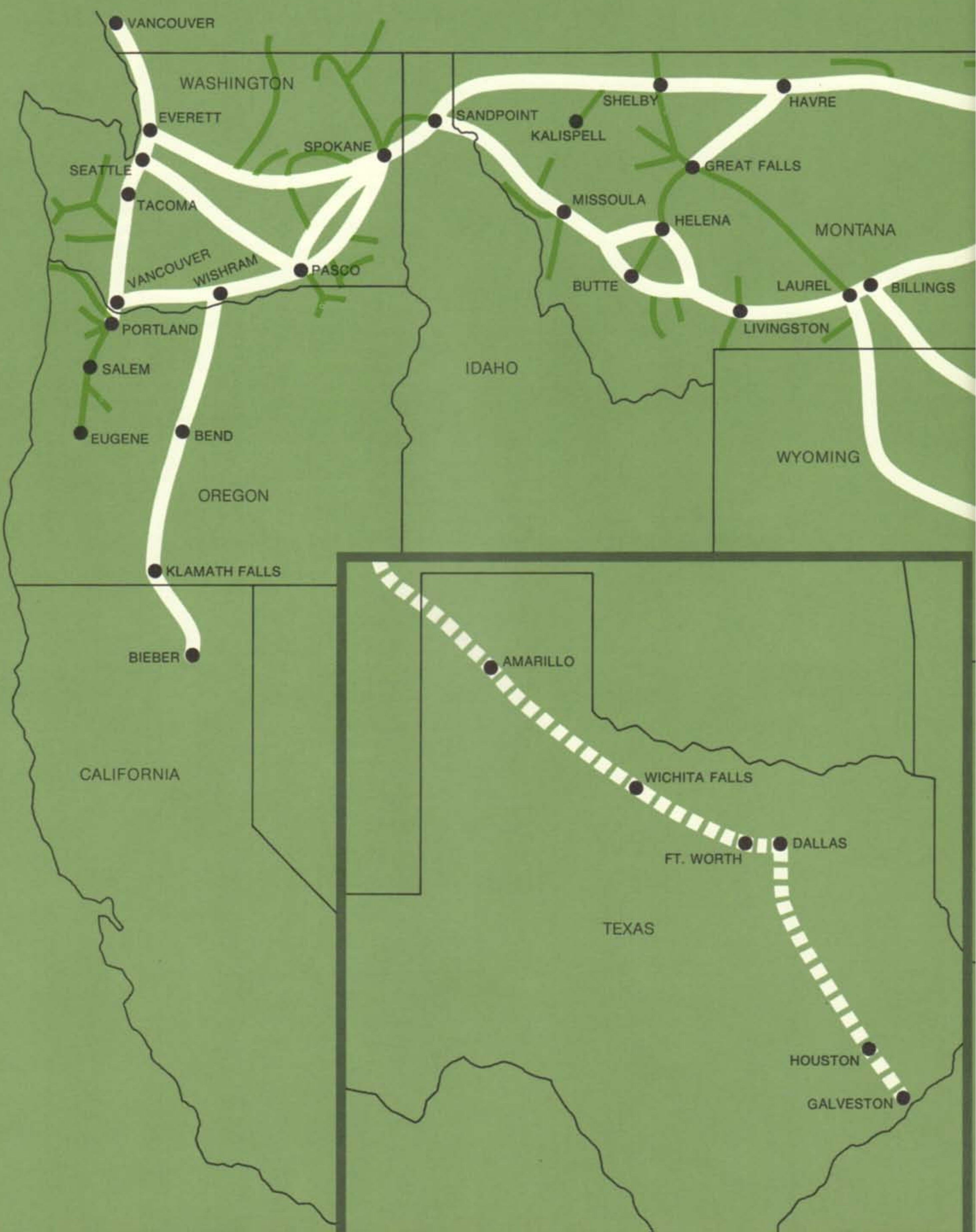
The railroads petitioned for reconsideration on the grounds that they had reached agreement with or would accommodate the demands of the employee organizations and the principally affected railroads. Proceedings were reopened by the Commission for further hearing and oral argument and in December, 1967, the Commission approved the merger, subject to conditions relating to protection of employees, other railroads and providing certain routing advantages to shippers.

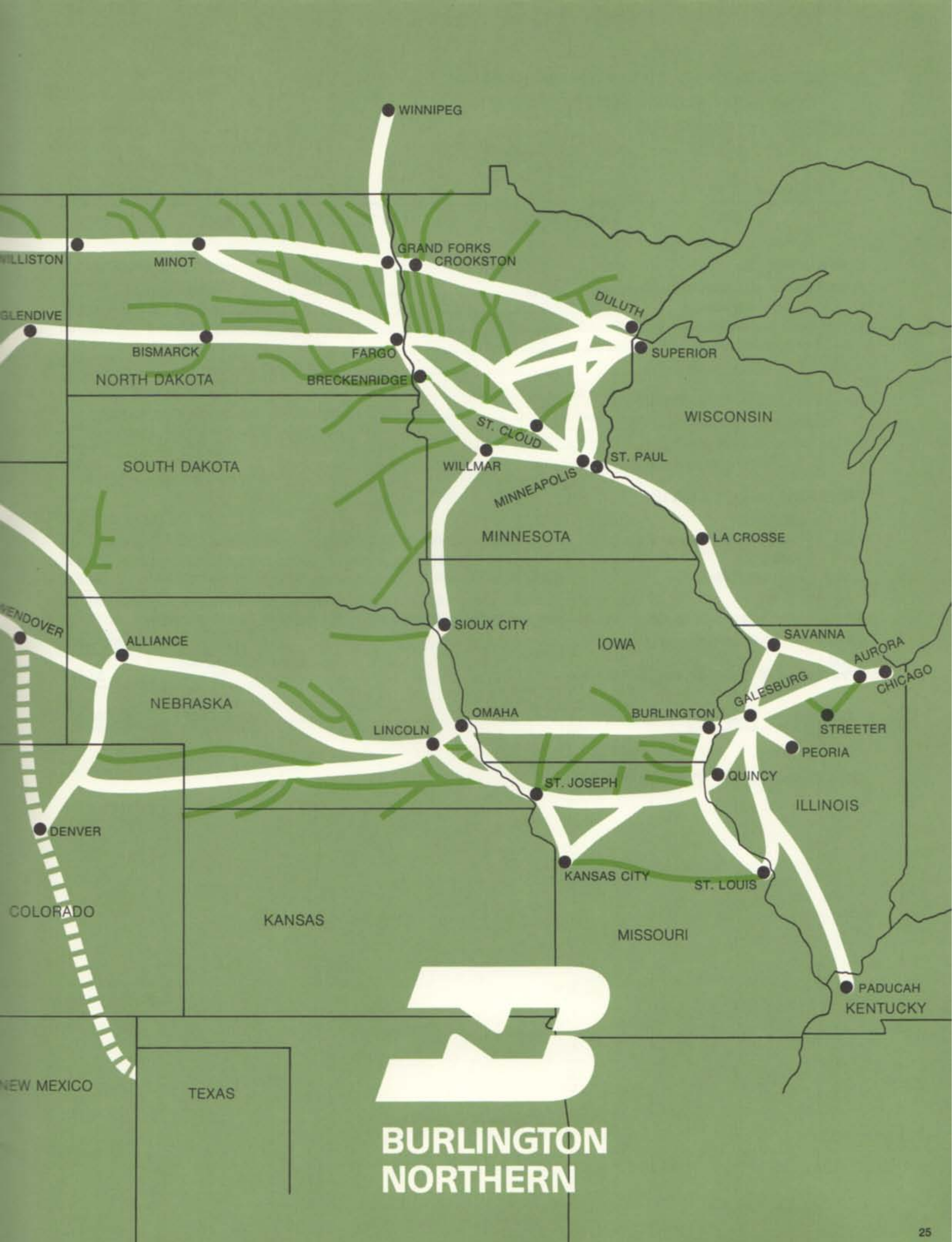
Consummation of the merger, set for May 10, 1968, was interrupted by suits against the Interstate Commerce Commission in Federal District Courts in Washington, D.C., New York City, and Seattle. Sought in each case, was a temporary restraining order suspending the Commission's approval of the merger. The three presiding judges who heard arguments on May 9, 1968, refused to interfere. The Department of Justice's attorneys then interceded directly with the then Chief Justice of the United States who, on May 10, 1968, signed an order delaying the merger.

The case was further argued in July, 1968, before a special three-judge Federal District Court and decided in favor of the Commission and the Railroads by unanimous vote of the Court.

An appeal to the United States Supreme Court was argued in October, 1969, and on February 2, 1970, the Supreme Court, in a unanimous decision, affirmed the judgment of the District Court, thereby permitting consummation of the merger.

The actual corporate weld, fusing the constituent companies into a single entity, was accomplished on March 2, 1970, in New York City.


VANCOUVER
WASHINGTON
EVERETT
SEATTLE
TACOMA
SPOKANE
VANCOUVER
WISHRAM
PASCO
PORTLAND
SALEM
EUGENE
BEND
OREGON
KLAMATH FALLS
BIEBER
CALIFORNIA
SANDPOINT
KALISPELL
SHELBY
HAVRE
GREAT FALLS
MISSOULA
HELENA
MONTANA
BUTTE
LAUREL
BILLINGS
LIVINGSTON
IDAHO
WYOMING
AMARILLO
WICHITA FALLS
FT. WORTH
DALLAS
TEXAS
HOUSTON
GALVESTON


WINNIPEG
WILLISTON
MINOT
GRAND FORKS
CROOKSTON
GLENDIVE
BISMARCK
FARGO
DULUTH
SUPERIOR
NORTH DAKOTA
BRECKENRIDGE
WISCONSIN
ST. CLOUD
ST. PAUL
WILLMAR
MINNEAPOLIS
SOUTH DAKOTA
MINNESOTA
LA CROSSE
ENDOVER
SIOUX CITY
SAVANNA
ALLIANCE
IOWA
AURORA
CHICAGO
GALESBURG
NEBRASKA
OMAHA
BURLINGTON
LINCOLN
STREETER
PEORIA
ST. JOSEPH
QUINCY
ILLINOIS
DENVER
KANSAS CITY
ST. LOUIS
COLORADO
KANSAS
MISSOURI
PADUCAH
KENTUCKY
NEW MEXICO
TEXAS
BURLINGTON
NORTHERN

BURLINGTON NORTHERN INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1969 AND 1968

	(In Thousands of Dollars)	
ASSETS	**1969**	**1968**
CURRENT ASSETS:		
Cash and temporary cash investments	$ 98,993	$ 135,724
Accounts receivable	106,923	97,678
Material and supplies — at cost	62,767	62,700
Other current assets	6,503	5,969
Total current assets	275,186	302,071
SPECIAL FUNDS AND INVESTMENTS:		
Capital and other special funds	12,431	13,624
Investments — at cost	60,850	56,901
Total special funds and investments	73,281	70,525
PROPERTIES (Notes 4, 9 and 10):		
Transportation:		
Road and roadway structures	1,962,470	2,011,111
Equipment	1,523,339	1,540,447
Non-operating properties	107,690	99,400
Total	3,593,499	3,650,958
Less accumulated depreciation, amortization, and losses upon merger	1,119,073	1,074,102
Properties — net	2,474,426	2,576,856
OTHER ASSETS AND DEFERRED CHARGES	52,924	33,655
TOTAL	$2,875,817	$2,983,107

See accompanying Notes to Financial Statements.

LIABILITIES	1969	1968
	(In Thousands of Dollars)	
CURRENT LIABILITIES:		
Accounts payable	$ 108,854	$ 99,242
Accrued interest and taxes	50,649	54,483
Other current liabilities	12,495	17,974
Current portion of long-term debt	49,554	49,582
Total current liabilities	221,552	221,281
LONG-TERM DEBT (Note 4)	813,953	844,526
CASUALTY RESERVES AND OTHER LIABILITIES (Note 9)	57,054	34,251
MINORITY INTEREST IN SUBSIDIARIES	15,024	14,885
STOCKHOLDERS' EQUITY:		
Common stock without par value, authorized 17,500,000 shares; outstanding, 1969, 12,294,595 shares; 1968, 12,291,105 shares (excluding 18,500 shares of treasury stock in each year)	537,714	537,561
Preferred stock, $10 par value, authorized 3,102,333 shares; outstanding, 1969, 3,080,843 shares; 1968, 3,080,243 shares (Note 6)	30,808	30,802
Retained earnings	1,199,712	1,299,801
Total stockholders' equity	1,768,234	1,868,164
TOTAL	$2,875,817	$2,983,107

BURLINGTON NORTHERN INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

FOR THE FIVE YEARS ENDED DECEMBER 31, 1969

(In Thousands of Dollars)

	1969	1968	1967 (Unaudited)	1966 (Unaudited)	1965 (Unaudited)
TRANSPORTATION REVENUES:					
Freight	$818,271	$769,343	$731,245	$774,100	$722,544
Passenger, mail and express	55,230	56,095	68,234	78,231	78,551
Other	33,891	34,376	33,559	35,045	33,324
Total	907,392	859,814	833,038	887,376	834,419
TRANSPORTATION COSTS AND EXPENSES:					
Transportation	365,093	336,190	335,108	336,342	322,287
Maintenance of way and structures	133,665	123,363	118,319	120,544	117,073
Maintenance of equipment	162,733	154,848	153,776	153,272	152,750
Taxes, other than Federal income taxes	82,568	79,363	78,677	73,400	70,511
Equipment and joint facility rents — net	15,922	11,817	12,136	13,006	8,416
Other	91,100	87,677	82,866	75,927	73,375
Total	851,081	793,258	780,882	772,491	744,412
Net transportation operating income	56,311	66,556	52,156	114,885	90,007
OTHER INCOME:					
Dividends and interest	8,694	8,342	9,207	10,506	9,411
Oil and gas	8,611	8,390	8,430	6,918	6,707
Timber and lumber products	31,213	27,952	5,009	4,522	4,440
Real estate rentals	6,730	6,319	5,830	5,322	4,958
Other	11,447	6,319	7,545	6,258	5,879
Total other income	66,695	57,322	36,021	33,526	31,395
Less expenses	30,309	26,191	6,663	6,090	5,101
Net other income	36,386	31,131	29,358	27,436	26,294
Total income	92,697	97,687	81,514	142,321	116,301
INTEREST AND OTHER FIXED CHARGES	37,023	37,673	34,816	32,435	29,979
INCOME BEFORE FEDERAL INCOME TAXES AND MINORITY INTEREST	55,674	60,014	46,698	109,886	86,322
PROVISION FOR FEDERAL INCOME TAXES	5,260	5,815	1,569	24,019	12,626
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	543	507	325	544	401
Total	5,803	6,322	1,894	24,563	13,027
INCOME BEFORE EXTRAORDINARY ITEM	49,871	53,692	44,804	85,323	73,295
EXTRAORDINARY CHARGE FOR COSTS AND LOSSES INCURRED UPON MERGER (less applicable Federal income taxes, $8,746,000) (Note 9)	33,258				
NET INCOME—In conformity with I.C.C. accounting rules	$ 16,613	$ 53,692	$ 44,804	$ 85,323	$ 73,295
Estimated reduction of Federal income taxes (Note 2)	10,270	5,904	9,470	13,801	18,759
NET INCOME — In conformity with generally accepted accounting principles	$ 6,343	$ 47,788	$ 35,334	$ 71,522	$ 54,536
NET INCOME PER SHARE:					
I.C.C. accounting rules:					
Income before extraordinary item	$ 3.92	$ 4.23	$ 3.50	$ 6.79	$ 5.82
Extraordinary item	(2.71)				
Net Income	$ 1.21	$ 4.23	$ 3.50	$ 6.79	$ 5.82
Generally accepted accounting principles:					
Income before extraordinary item	$ 3.09	$ 3.75	$ 2.73	$ 5.67	$ 4.30
Extraordinary item	(2.71)				
Net income	$ .38	$ 3.75	$ 2.73	$ 5.67	$ 4.30

See accompanying Notes to Financial Statements.

BURLINGTON NORTHERN INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

FOR THE FIVE YEARS ENDED DECEMBER 31, 1969

(In Thousands of Dollars)

	1969	1968	1967 (Unaudited)	1966 (Unaudited)	1965 (Unaudited)
BALANCE AT BEGINNING OF YEAR:					
As previously reported					$1,257,768
Adjustment of prior years depreciation (Note 10)					81,527
As restated	$1,299,801	$1,280,677	$1,271,031	$1,221,794	1,176,241
ADD:					
Net income — in conformity with I.C.C. accounting rules	16,613	53,692	44,804	85,323	73,295
Restoration of provisions for possible retroactive payments to eastern lines in the Transcontinental Divisions Cases				942	5,152
Other adjustments (less taxes) — net				(2,512)	648
Total	1,316,414	1,334,369	1,315,835	1,305,547	1,255,336
DEDUCT:					
Cash dividends declared	34,383	34,362	34,494	34,516	33,542
Cost of treasury stock purchased by Northern Pacific Railway Company in excess of par value and average premium		206	664		
Properties adjustment (Note 10)	82,319				
Total	116,702	34,568	35,158	34,516	33,542
BALANCE AT END OF YEAR	$1,199,712	$1,299,801	$1,280,677	$1,271,031	$1,221,794

BURLINGTON NORTHERN INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED CHANGE IN WORKING CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 1969

(In Thousands of Dollars)

BALANCE AT BEGINNING OF YEAR		$ 80,790
SOURCES OF WORKING CAPITAL:		
Net income	$ 16,613	
Charge for reserves for costs and losses incurred upon merger	33,258	
Depreciation and other non-cash items	72,557	
Total provided from operations	122,428	
Sale of property, investments and other assets	13,209	
Sale of common and preferred stock (stock option)	159	
Proceeds from equipment financing	22,018	157,814
Total		238,604
APPLICATIONS OF WORKING CAPITAL:		
Additions and betterments to property and equipment	97,169	
Reduction in long-term debt	53,290	
Dividend on common stock	34,383	
Other — net	128	184,970
BALANCE AT END OF YEAR		53,634
NET DECREASE IN WORKING CAPITAL		$ 27,156

See accompanying Notes to Financial Statements.

BURLINGTON NORTHERN INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(including notes applicable to unaudited years)

1. PRINCIPLES OF CONSOLIDATION AND MERGER

The consolidated financial statements include the Burlington Northern Inc. and all of its subsidiaries.

On March 2, 1970, Great Northern Railway Company, Northern Pacific Railway Company, Chicago, Burlington & Quincy Railroad Company and Pacific Coast Railroad Company were merged into a new company, Burlington Northern Inc. This merger has been accounted for as a pooling of interests and, accordingly, the financial statements include the accounts of the merged companies in each year. The excess of cost over underlying book value and pre-acquisition retained earnings, as of July 1, 1901, of $52,456,000 relating to the Great Northern-Northern Pacific 97.18% ownership in the Chicago, Burlington & Quincy has been charged to retained earnings as of that date.

2. FEDERAL INCOME TAXES

The provisions of the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission vary from generally accepted accounting principles in that no recognition is given in the accounts to the possible effect on Federal income taxes in future years for current reductions in income taxes resulting from deductions (net) for amortization and depreciation of property for income tax purposes in excess of those recorded in the accounts. The cumulative amount of such reductions (net) in Federal income taxes included in retained earnings at December 31, 1969 was $235,635,000. Federal income taxes, currently payable, have been reduced by applications of the investment credit in amounts approximating $3,732,000, $7,370,000, $200,000, $4,284,000, and $5,260,000 for the five years ended December 31, 1965 through 1969, respectively. At December 31, 1969, the Company had an unused investment credit carry-forward, subject to Internal Revenue Service review, of approximately $32,000,000 (including $27,900,000 applied in reduction of the provisions for deferred income taxes).

3. DEPRECIATION AND RETIREMENTS

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

	Depreciation	Repairs and Renewals
1965	$61,752,000	$39,293,000
1966	62,375,000	44,930,000
1967	65,499,000	39,443,000
1968	67,515,000	43,711,000
1969	68,541,000	42,216,000

4. LONG-TERM DEBT

At December 31, 1969, the long-term debt was as follows:

Funded debt:	
Northern Pacific Railway Company:	
Prior Lien Mortgage, 4%, due 1997	$ 91,305,000
General Lien Mortgage, 3%, due 2047	53,586,000
St. Paul-Duluth Division Mortgage, 4%, due 1996	245,000
Collateral Trust, 4%, due 1984	28,414,000
Refunding and Improvement Mortgage Series A, 4½%	16,197,000
Great Northern Railway Company General Mortgage bonds, 2⅝% to 5%, due 1973 to 2010	178,663,000
Chicago, Burlington & Quincy Railroad Company — First and Refunding Mortgage bonds, 2⅞% to 4½%, due 1970 to 1998	104,121,000
Fort Worth and Denver Railway Company — First Mortgage bonds, 4⅜%, due 1982	10,108,000
Equipment and other obligations, 2⅝% to 9%, due 1971 to 1984	331,314,000
Total	$813,953,000

Included in long-term debt are C.B.&Q. First and Refunding bonds, 2⅞% in the amount of $43,320,000, which will become due August 1, 1970. The Company plans to refinance the obligations on or before their due date.

Effective with the merger, the Northern Pacific Refunding and Improvement Mortgage Series A 4½% bonds in the amount of $16,197,000 will be redeemed because of conflicting rights on certain pledged assets by other mortgage obligations. The above obligation is included as long-term debt at December 31, 1969 as the Company plans to refinance the obligation.

Substantially all properties are pledged or otherwise restricted under the Company's various mortgage indentures and equipment obligations.

5. STOCK OPTIONS

The Company's stock option plans provide for the granting of options to officers and key employees. The option price is the market value of the stock at date of grant. At December 31, 1969, 91,591 shares of common stock are issuable pursuant to outstanding options. In addition, under terms of the merger, 5,633 shares of preferred stock are issuable upon exercise of common stock options. During 1969, options for 1,000 shares were granted, 3,490 shares of common stock were issued upon exercise of options, and options for 30,701 shares were canceled. The changes in common and preferred stock (giving effect to the merger) on the Company's balance sheet resulted from sales of stock under the option plans. The Company has reserved, out of its authorized but unissued common and preferred stock, sufficient shares to satisfy all outstanding options. No material dilution in earnings per share would have occurred if all options outstanding had been exercised.

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