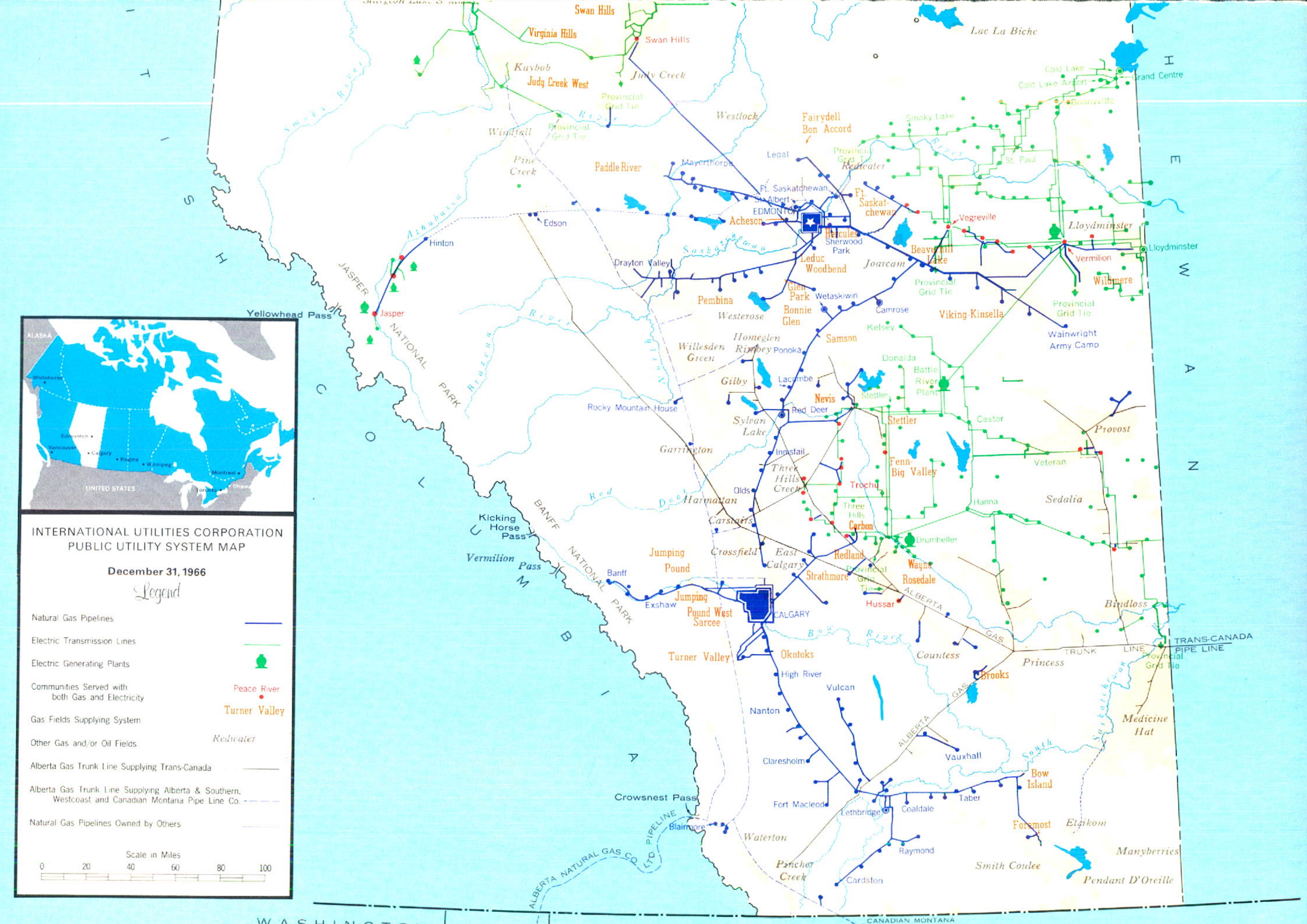
INTERNATIONAL
UTILITIES CORPORATION
FORTY-SECOND
ANNUAL REPORT
TO SHAREHOLDERS
1966



PUBLIC UTILITY SYSTEM MAP

NORTHWEST TERRITORIES
SASKATCHEWAN
ALBERTA
BR
Mackenzie Bay
Amundsen Gulf
Coronation Gulf
NORTHWEST TERRITORIES
Great Bear Lake
Mackenzie River
Great Slave Lake
ALASKA
YUKON TERRITORY
Old Crow
Keno City
Stewart Crossing
Beaver Creek
Burwash Landing
Pelly Crossing
Carmaks
Ross River
Destruction Bay
Haines Junction
Whitehorse
Carcross
Teslin
Watson Lake
Ft. Providence
Hay River
Enterprise
Grumbler Rapids
Uranium City
BRITISH COLUMBIA
ALBERTA
Uranium City
Lake Athabasca
Fort Chipewyan
Rainbow
Rainbow South
Fort Vermilion
Peace River
HIGHWAY
MACKENZIE
Paddle Prairie
Athabasca Oil Sands
Fort McMurray
Athabasca River
Worsley
Boundary Lake
Ft. St. John
Peace River
ALASKA HIGHWAY
WESTCOAST TRANSMISSION LINE
Dawson Creek
Pouce Coupe
Hamelin Creek
Fairview
Grimshaw
Peace River
Whitelaw
Tangent
Normandville
Gordondale
Spirit River
McLennan
Falher
Heart River
Rycroft
Saddle Hills
Lesser Slave Lake
High Prairie
Beaverlodge
Grande Prairie
Valleyview

SUBSIDIARIES OF INTERNATIONAL UTILITIES CORPORATION (I U CORP.)

Canadian companies

Canadian Western Natural Gas Company Limited (Canadian Western)
Distributes natural gas in the cities of Calgary and Lethbridge, the town of Banff and 82 other communities in southern Alberta. Population of the area served is about 441,000.

Northwestern Utilities, Limited (Northwestern)
Distributes natural gas in the Capital City of Edmonton, the cities of Red Deer, Camrose and Wetaskiwin and 88 other communities in central Alberta. Population of the area served is about 512,000.

Canadian Utilities, Limited (Canadian Utilities) and its subsidiaries, Yukon Hydro Company Limited and The Yukon Electrical Company Limited
Supply electricity to 261 communities in central and northern Alberta, 1 in Saskatchewan and 15 in the Yukon Territory. Serve 140 rural electrification associations, 46 oilfields and 27 other groups. The area served has an estimated aggregate population of about 172,000.

Northland Utilities Limited (Northland Utilities) and its subsidiaries, Northland Utilities (B.C.) Limited and Uranium City Power Co. Ltd.
Supply electricity to 50 communities in northern Alberta, in the Northwest Territories and Uranium City, Saskatchewan. Serve 29 rural electrification associations and 4 other groups. Distribute natural gas to 26 communities in northern Alberta and to 3 in British Columbia. A population of about 38,000 is served with electricity and about 47,000 with natural gas.

Canadian Coachways Limited (Canadian Coachways), which has eight directly and three indirectly owned subsidiaries.
Operates motor bus routes in Alberta, British Columbia, Yukon and Northwest Territories.

MisMat Corporation Limited
A fiscal company which finances the purchase of homes for system employees and acts as agent for the system companies in various matters.

Kaiser-Nelson Demolition Limited
Began demolition and salvage operations in Canada late in 1966.

Gotaas-Larsen shipping companies

Ocean Oil Operation, Inc. (Panama) and its subsidiaries, Ocean Oil Operation, Inc. (Liberia), Ocean Oil Associates, Inc. (Liberia), Ocean Oil Carriers, Inc. (Liberia), Ocean Oil International, Inc. (Liberia) and Gotaas-Larsen Limited (Bahamas), which in turn has four subsidiaries in South America.

Arrow Shipping Corp. (Liberia)
Emerald Shipping Corporation (Liberia)
Emerald Shipping Corporation (Panama)
Golarfreeze, Inc. (Liberia)
Golarfrost, Inc. (Liberia)
Golarfruit, Inc. (Liberia)
Golartryg, Inc. (Liberia)
Gotaas-Larsen, Inc. (U.S.A.)
Gotaas-Larsen Corporation (U.S.A.)
Naviera Panamericana S.A. (Panama)
Ocean Tankship Co. Inc. (Delaware)
Ocean Tankship Corporation (Liberia)
Ocean Oil Enterprise, Inc. (Liberia)
Ocean Oil Traders, Inc. (Liberia)
Ocean Oil Transport, Inc. (Liberia)
Ocean Ore Shipping Corp. (Liberia)
Oriole Shipping Corp. (Liberia)
Sterling Tankers Limited (Bahamas)
Triple Ocean Operation, Inc. (Liberia)
Twin Ocean Operation, Inc. (Liberia)

The shipping companies own and/or operate oil tankers, bulk carriers and refrigerator ships or are engaged in related activities.

International Utilities Inc. (I U Inc.)

In process of liquidation—see International Utilities of the U.S., Inc.

International Utilities of the U.S., Inc. (I U U S)

Brown Brothers Contractors, Inc. and The Kaiser-Nelson Corporation were merged into I U U S in January and February of 1967, and divisions with the same names were formed to engage in the recovery of steel and iron scrap at steel plants, the processing of slag and crushed stone and sale of such products. Operations are conducted in Pennsylvania, Ohio and New Jersey. A subsidiary, The Kaiser-Nelson Steel and Salvage Corporation, conducts demolition and salvage operations throughout the United States. I U U S is a subsidiary of I U Inc. and, upon liquidation of that company, will become the owner of all the outstanding capital stock of International Utilities Investment Corporation and Ryder Truck Lines, Inc.

International Utilities Investment Corporation (I U Investment)

Holds a diversified portfolio of marketable securities of United States companies.

Ryder Truck Lines, Inc. (Ryder)

A motor trucking company which transports general commodities over regular routes in 16 states of the United States.

Other United States companies

Corporacion Chatarraven, C.A.
Conducts steel scrap operations in Venezuela.

International Metals Recovery, Inc.
Provides technical services to affiliate.

International Utilities Overseas Capital Corporation (I U Overseas)
Organized in 1966 to make investments outside the U.S.

Other companies

Brown Brothers de Mexico, S.A.
Conducts steel scrap-recovery operations at government-owned steel plant in Monclova, Mexico.

Contents

C later
in file

HIGHLIGHTS

FINANCIAL	1966	1965	1956
	(Canadian currency—see note 1, page 18)		(U.S. currency)
Gross income:			
Natural gas	$ 50,267,420	$ 47,884,692	$ 20,238,746
Electricity	14,976,232	13,887,832	4,612,776
Trucking operations (from August 1, 1965)	70,081,370	30,198,564	—
Shipping operations	24,775,104	19,652,308	—
Industrial operations	19,110,550	13,044,328	—
Bus operations	4,730,214	3,206,401	—
Interest and dividends	4,427,231	2,819,889	605,914
Rentals and miscellaneous	1,181,426	813,407	140,883
Total gross income	**$189,549,547**	**$131,507,421**	**$ 25,598,319**
Consolidated net income	**$ 15,772,048**	**$ 13,202,577**	**$ 4,579,356**
Excluding gain on disposition of properties and investments	$ 13,742,391	$ 11,851,150	$ 3,986,800
Gain on disposition of properties and investments, less U.S. capital gains tax, etc.	2,029,657	1,351,427	592,556
Total	**15,772,048**	**13,202,577**	**4,579,356**
Provision for dividends on $1.32 preferred shares	2,095,162	178,378	—
Balance	**$ 13,676,886**	**$ 13,024,199**	**$ 4,579,356**
Shares outstanding:			
$1.32 convertible preferred, less treasury stock	1,443,000	1,500,000	—
Common (see note 1)	6,822,837	6,811,123	4,875,276
Earnings per common share (based on average shares outstanding during year):			
Total earnings	$ 2.01	$ 1.91	$ .94
Excluding gain on properties and investments	1.71	1.72	.82
Dividends per common share	1.10	1.00	.47½
Shareholders' equity (consolidated)	165,267,746	160,618,968	35,369,105
Unrealized market appreciation in investments (consolidated)	22,447,982	32,440,711	3,126,519
Gross property additions	70,071,000	40,022,000	17,176,000
Total assets (consolidated)	$408,501,230	$367,005,265	$107,909,886
STATISTICAL			
Number of customers end of year:			
Natural gas	247,157	239,392	138,973
Electric	65,487	63,600	35,642
Total	**312,644**	**302,992**	**174,615**
Natural gas sold in MCF (thousand cubic feet)	146,228,416	137,855,572	80,837,818
Electricity sold in KWH (kilowatt hours)	561,993,848	562,267,826[2]	137,029,500

Note 1: The number of common shares, earnings and dividends per share have been adjusted to basis of shares outstanding after giving effect to (1) the 100% conversion of $1.40 convertible preferred stock which was called for redemption on April 1, 1957, (2) the share-for-share distribution of common stock in 1957, (3) the two-for-one stock split which became effective May 15, 1963 and (4) the 100% conversion of $2 convertible preferred stock which was called for redemption on June 1, 1965.

Note 2: Includes about 67,000,000 KWH sold to another power company in 1965.

See page 20 for a comparative ten-year summary of net earnings and other statistics.

EXECUTIVE DIRECTORS


Howard Butcher, III


John M. Seabrook


H. R. Milner, Q.C.


John C. Dale


H. Irgens Larsen


Norman S. Robertson, Q.C.


Dennis K. Yorath

INTERNATIONAL UTILITIES CORPORATION

200 University Avenue,
Toronto 1, Ontario,
Canada

Directors

Honorary Chairman: H. R. Milner, Q.C., Edmonton, Alberta
Chairman: Howard Butcher, III, Villanova, Pa.
W. W. Keen Butcher, Philadephia, Pa.
Sir Geoffrey Crowther, London, England
John C. Dale, Edmonton, Alberta
Robert C. Heim, Briarcliff Manor, N.Y.
H. Irgens Larsen, Armonk Village, N.Y.
F. Clarence Manning, Calgary, Alberta
Willis S. McLeese, Toronto, Ontario
Norman S. Robertson, Q.C., Toronto, Ontario
John M. Seabrook, Salem, N.J.
Peter N. Thomson, Vaudreuil, Quebec
Theodore S. Watson, Greenwich, Conn.
Bruce F. Willson, Thornhill, Ontario
Dennis K. Yorath, Edmonton, Alberta

Officers

Howard Butcher, III, Chairman of the Board
John M. Seabrook, President
Alden S. Bennett, Vice President
Eric M. Butler, Vice President and Secretary
John C. Dale, Vice President
(President of Canadian Utilities and Northland Utilities, Chairman of Canadian Coachways)
H. Irgens Larsen, Vice President
(President of Gotaas-Larsen, Inc.)
Norman S. Robertson, Q.C., Vice President
Dennis K. Yorath, Vice President
(Chairman of Canadian Western and Northwestern)
William F. Egan, Treasurer and Assistant Secretary
John K. Eaton, Assistant Secretary and Assistant Treasurer
William H. Walker, Assistant Secretary and Assistant Treasurer

Investment Advisory Board of International Utilities Investment Corporation

Hadley Case, Greenwich, Conn.
J. Paul Crawford, Jr., Pennington, N.J.
Robert C. Heim, Briarcliff Manor, N.Y.
William M. Hunt, Cohasset, Mass.
Walter P. Miller, Jr., Philadelphia, Pa.
John M. Seabrook, Salem, N.J.
William I. M. Turner, Jr., Montreal, Quebec
Theodore S. Watson, Greenwich, Conn.
William M. Weaver, Jr., New York, N.Y.
Ira T. Wender, New York, N.Y.

The Corporation's preferred and common shares are listed on the New York, Montreal, Toronto and Philadelphia-Baltimore-Washington stock exchanges. The Bank of New York in New York and Montreal Trust Company in Montreal, Toronto and Calgary are the transfer agents. The registrars are Chemical Bank New York Trust Company and Crown Trust Company.

TO THE SHAREHOLDERS:

Consolidated net earnings of our Corporation again reached record levels in the year 1966, and total assets crossed $400,000,000. Net income amounted to $15,772,048 including, and $13,742,391 excluding, gain on disposition of investments. These amounts represent increases of $2,569,471 and $1,891,241, respectively, over results reported for 1965.

After provision for dividend requirements on the $1.32 convertible preferred shares issued December 1, 1965, net earnings per share of common stock were $2.01 including, and $1.71 excluding, gain on disposition of investments. These earnings compare with $1.91 and $1.72, respectively, reported for 1965.

As reported last year, the Corporation issued 1,500,000 of $1.32 convertible preferred shares, and I U Inc. issued $25,000,000 (U.S.) of 20-year notes in December, 1965. In May, 1966, I U Overseas issued $12,000,000 (U.S.) of convertible bonds due 1986. The aggregate net proceeds from the sale of these securities amounted to approximately $83,200,000 (U.S.). A substantial part of these funds was, and some still is, temporarily invested in short-term paper and other marketable securities.

These important additions to our capital structure were made well in advance of the Corporation's need for the new money. It was recognized that the carrying charges, prior to full application of these funds, might be difficult to absorb. Nevertheless, the indications of an impending tightening of the money market appeared to justify the undertaking of our financing early and in full, rather than on a piece-meal, as-required basis. In the light of the subsequent sharp rise in interest rates, we are pleased that the $49,500,000 (U.S.) of preferred stock was sold to yield 4% and the 20-year notes and convertible bonds carry coupon rates of only 5% and 5¼%, respectively.

We believe that the financing steps of late 1965 and early 1966 have given us the strength and flexibility to maintain, for some time to come, the growth in our present operations and to take advantage of additional attractive investment opportunities as they are developed.

You will be pleased to note that the companies were able to absorb the carrying charges on the new capital without any material decrease in net operating earnings per share. As this capital becomes permanently employed in subsequent years, we expect our per share earnings to continue to rise at the rate we have enjoyed in recent years.

New highs were attained in gross revenues, volume of business and customers served by our gas and electric companies in western Canada. Our world-wide shipping operations were expanded and earnings improved, despite costly hurricane damage to one of the vessels. Earnings from industrial operations (steel scrap recovery, demolition, etc.) continued to forge ahead.

The 1966 operating results of Ryder Truck Lines, Inc., acquired in August, 1965, were disappointing. Full-year earnings for the Canadian Coachways bus operation also fell short of a satisfactory return on our investment. Nevertheless, they were better than we expected and profits in the later months showed marked improvement. We believe proper steps have been taken, in both Ryder and Canadian Coachways, to improve service, strengthen the management and effect substantial economies. We look with confidence, therefore, to an increase in earnings from transportation operations in 1967.

Since its inception in 1924, our Corporation and some of its system companies have carried a general portfolio of investment securities other than in subsidiaries. In many cases, investments are made in non-dividend paying securities with good growth potential. In each year for many years, we have reported substantial gains on the disposition of investments and properties separately from net income from other sources (see page 20). For the last ten years such capital gains, after taxes and expenses, have averaged over $1,700,000 per annum, equal to 25¢ per share on the Corporation's outstanding common shares. At year-end market quotations, marketable securities owned by the system companies were worth about $22,500,000 (or $3.29 per common share) more than their aggregate cost.

The regular quarterly dividend rate on our common shares was increased September 1, 1966 from 25¢ to 30¢ per share in Canadian funds. Thus, common dividends per share are now at an annual rate of $1.20 compared with total payments of $1.10 in 1966 and $1.00 in 1965. This increase extends to 22 years our record of declaring common share dividends in larger amounts each year.

The officers and employees of the system companies are, of course, mainly responsible for the success of our varied operations and the year-to-year improvements in profits. We are sincerely grateful for their continued whole-hearted co-operation.

At the corporate level, we have remained alert for opportunities to expand the scope and profitability of our subsidiaries and divisions, to make suitable additions to our family of companies and to strengthen our portfolio of security investments—all for the long-term, optimum benefit to our Corporation and its shareholders. It is our hope that by these efforts, in combination with those of our subsidiaries' officers and employees, we will be able to maintain the continuously upward trend in earnings which I U Corp. has recorded for many years.

A detailed review of each division of the Corporation's business is presented in the following pages of this report.

For the Board of Directors

Howard Butcher III

Chairman

John M Seabrook

President

March 10, 1967

REVIEW OF OPERATIONS

SOURCES OF INCOME

Although a substantial part of consolidated net income is now derived from non-utility operations, our principal source of earnings continues to be our public utility subsidiaries in western Canada.

The proportion of consolidated income, excluding gain on disposition of properties and investments, which was contributed by each division during the last two years, was as follows:

	1966	1965
Public utilities	50.9%	59.9%
Shipping	13.3	8.3
Trucking	3.3	7.2
Industrial	11.6	10.2
Other investments	20.9	14.4
Total	100.0%	100.0%

For the purpose of the above table, we have made what we consider to be fair allocations, among the divisions, of income taxes and other expenses. We have made some minor adjustments in the basis for these allocations, primarily to reflect the substantial change in our capital structure. The percentage contributions shown above for 1965 are slightly different, therefore, from those shown in the previous annual report.

NATURAL GAS OPERATIONS

Last year our Canadian natural gas subsidiaries sold 146.2 billion cubic feet of natural gas, an increase of 8.4 billion or 6.1% over 1965. Gross revenues from the sale of natural gas in 1966 were $50,267,420, an increase of $2,382,728 or 4.9%.

1966 was a very cold year in Alberta, as was 1965 before it. We estimate that gas sales for 1966 were increased by 5.2 billion cubic feet and gas revenues by $1,841,000 because of the lower than normal temperatures. These amounts in 1966 compare with estimated increases in 1965 of 4.9 billion cubic feet in sales and $1,848,000 in gross revenues, also because of colder than normal weather. We estimate that the growth in sales would have been 6% had normal weather prevailed in both years.

About 7,750 new gas customers were added in 1966, bringing the total number served by the three companies to 247,157. These customers are located in 206 communities in western Canada, mainly within the Province of Alberta. The population of the area served is approximately 1,000,000.

During the year, natural gas rates were adjusted downward in 48 communities affecting 8,290 customers. No upward adjustments took place.

Natural gas now provides over 20% of Canada's energy needs. In our service territory, this percentage is greatly exceeded, with natural gas providing upwards of 75% of the energy requirements. Because of favourable cost and outstanding service, natural gas remains the favoured fuel throughout the area for space heating, water heating, commercial and industrial use.

The economy of the area served remains healthy, as reflected in the continued, steady growth of the system companies. Prospects for 1967 and the years following appear exceptionally good.

The three companies expended $9,031,000 in 1966 on capital expenditures compared with $8,714,000 in 1965. The largest expenditure was almost $2,500,000 by Canadian Western on a pipeline from the Jumping Pound West Field to Calgary. This line will carry increasing amounts of natural gas to the Calgary area as the market continues to grow.

It is estimated that $8,513,000 will be expended on property additions in 1967, most of which will provide for the anticipated growth of the companies. There are no large special projects planned, but it is the intention of the gas companies to undertake more exploratory work than has been the practice in recent years.

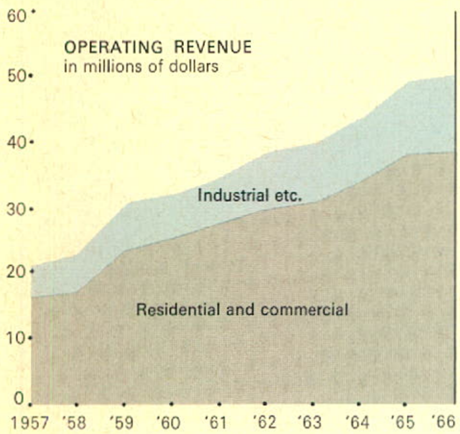
The gas properties at the end of 1966 included 2,744 miles of transmission and field lines and 2,946 miles of distribution line.

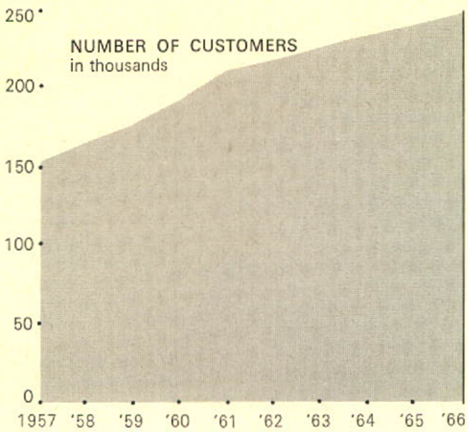
I U Corp. owns 87.7% of the outstanding ordinary shares of Canadian Western and all of the outstanding common shares of Northwestern. Canadian Western reported net income applicable to its ordinary shares of $2,368,207 or $1.33 per share for 1966 as compared with $2,494,811 or $1.40 per share for 1965. Northwestern's net income after preferred dividends was $3,168,652 in 1966 and $3,495,085 in 1965.

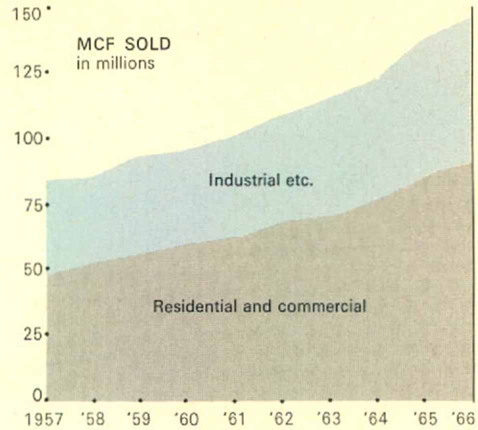
The reductions in net income of our gas companies, despite the overall increase in revenues, reflect increases in a number of underlying costs.

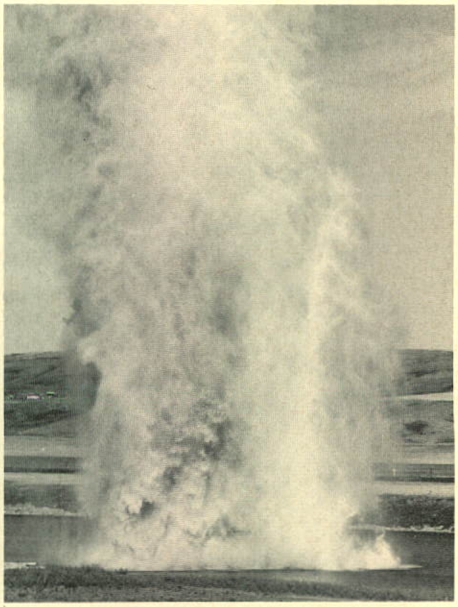
At the end of 1966, it was estimated that there were 5 trillion cubic feet of natural gas in the various fields from which our companies presently produce or purchase gas. During 1966, the companies purchased approximately 84% of their natural gas requirements, compared with 80% in 1965. The balance was produced from company-owned leases and wells.

NATURAL GAS SALES AND CUSTOMERS



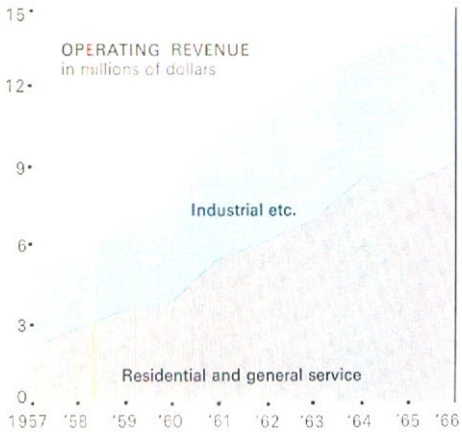


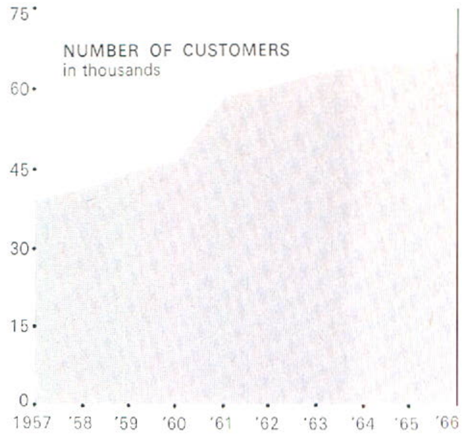


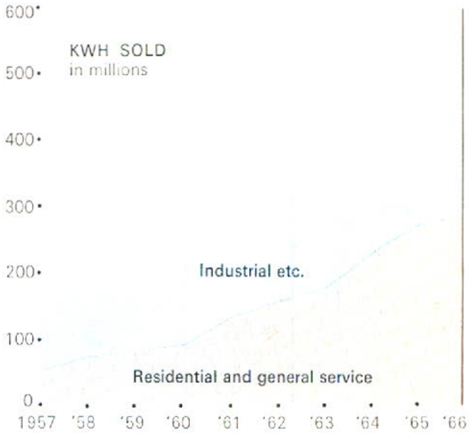


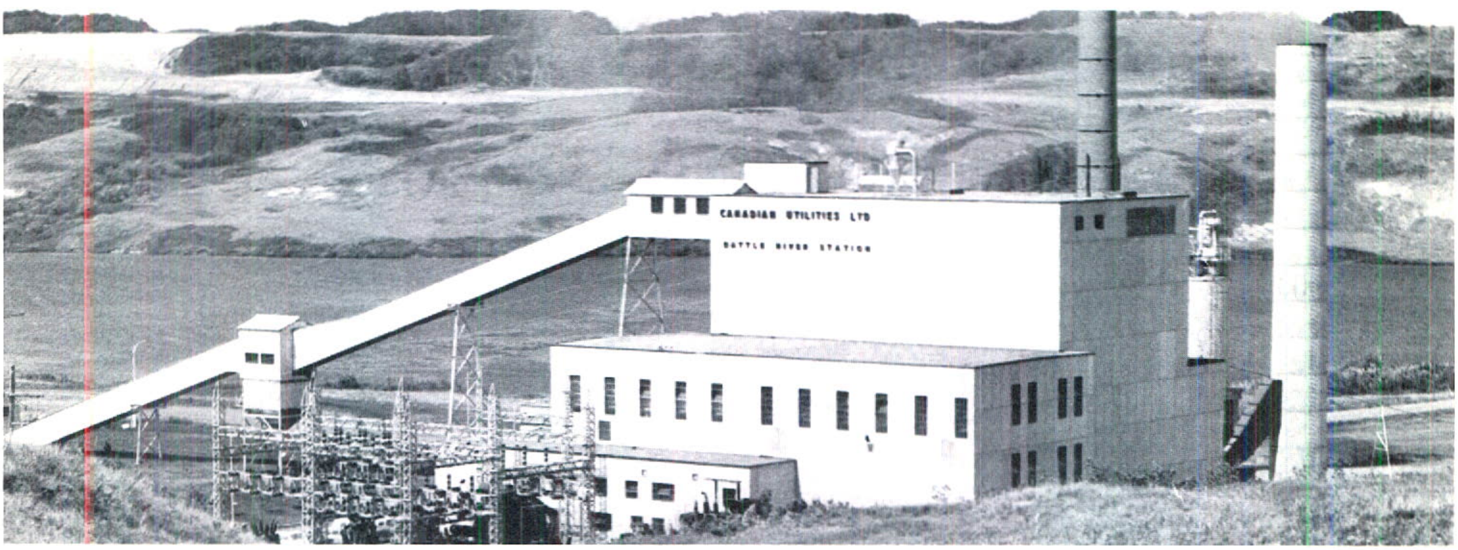
Left: Wrapping of pipe prior to installation in Canadian Western's major pipeline project for 1966 - connecting Calgary to the Jumping Pound West Field, 45 miles west of that city. Centre: Skids of explosives being pulled into Bow River west of Calgary to blast a trench bed for pipeline. Right: Plume of water shoots skyward as explosives rip a trench six feet deep for the pipeline. Bottom: Canadian Western's new service centre in Lethbridge, Alberta, puts all company facilities in that area under one roof.

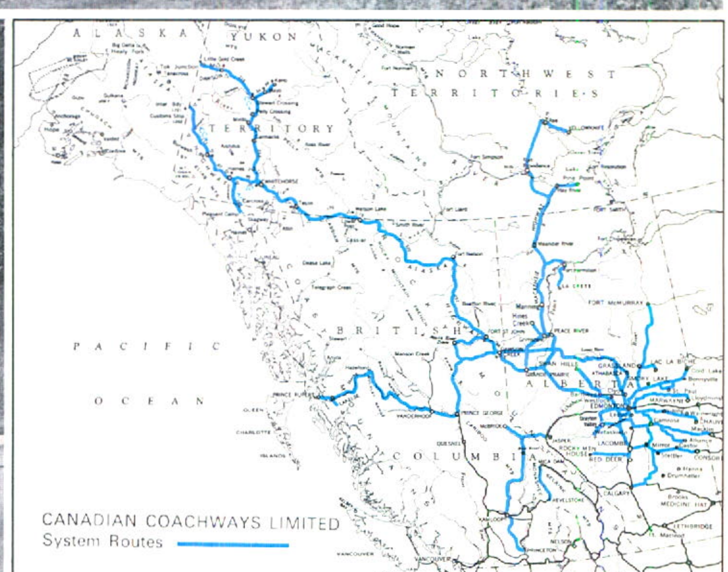
ELECTRIC SALES AND CUSTOMERS











Top: The Canadian Utilities' 66 megawatt steam generating station located on the Battle River in Alberta about 120 miles southeast of Edmonton. This station is now being expanded for the installation of a new 150 megawatt unit. Left: This is one of the new 39-passenger General Motors de luxe scenic cruisers, six of which were recently put into service in the Coachways system. System map at right.

REVIEW OF OPERATIONS

ELECTRIC OPERATIONS

Electric power sales by Canadian Utilities and Northland Utilities totaled 562 million KWH in 1966, an increase of 13.5% over normal sales of 495 million (excluding 67 million sold to another power company) in the previous year. Gross revenue from electric sales amounted to $14,976,000, an increase of $1,088,000 over 1965. These increases in output and revenue reflected an excellent agricultural crop yield in Alberta and continuing growth in the petroleum, lumbering and mining industries there. Electric revenues for 1967 are expected to increase by better than 10% over 1966.

Expenditures on capital additions and improvements to the electric properties in 1966 totaled $11,143,000. Included in that amount was $1,015,000 of progress payments on a 150 megawatt addition to the Battle River generating station and payment of $1,146,000 toward completion of a 20 megawatt gas turbine generator plant in the Simonette oil field. Expenditures on new transmission lines and on increasing capacity of existing lines amounted to $2,486,000. Capital addition requirements for 1967 are estimated at $16,450,000, which includes provisions of $7,987,000 for progress payments on the Battle River plant and $2,083,000 for transmission lines.

The increased capacity of the Battle River plant will exceed the requirements of our electrical companies at time of commissioning in 1969. Therefore, 75 megawatts (half of total capacity) have been contracted to another member of the Alberta power grid during the early years of the unit's operation.

The new gas turbine plant in the Simonette oil field has been on line since late 1966. The plant is fueled by low cost gas which would otherwise be flared as waste in the production of oil in the surrounding oil field.

Canadian Utilities purchased all of the assets of its wholly-owned subsidiary, Fort McMurray Power Company Limited, as of September 30, 1966, and is now serving that area as a district of the company. The number of customers served in the Fort McMurray area increased by more than 50% during 1966. This growth resulted largely from the influx of workmen employed in developing the Athabasca oil sand field, estimated as one of the largest oil reserves in the world.

The combined maximum peak hour demand on the electric system in 1966 was 149 megawatts. The aggregate capacity of generating stations owned and operated by the companies at the year end was 192 megawatts.

The electric companies added 748 miles of line to the system in 1966. The system now consists of 5,409 miles of transmission lines, at voltages up to 138,000, and 1,796 miles of distribution lines. The companies have built and now operate 15,515 miles of farm service lines for rural cooperative associations. Customers served with electricity totaled 65,487 at the year-end, including 17,167 rural cooperative services.

Canadian Utilities reported consolidated net income for 1966 applicable to its common shares of $2,187,117 or $2.49 per share on 878,280 shares outstanding at the year-end, as compared to $1,990,546, or $2.27 per share for 1965. I U Corp. owns 633,310, or 72% of the outstanding common shares.

Northland Utilities, which distributes both electricity and gas, reported consolidated net income last year of $612,914, or $1.71 per common share, after preferred dividends. This compares with 1965 earnings of $610,703, or $1.70 per common share. I U Corp. owns $610,000 of the company's outstanding $650,000 par value preferred shares and 357,518 of the 359,057 outstanding common shares.

The Rainbow Lake oil field, discovered in 1965, promises to be Canada's most prolific oil field. This field is within the service area of Northland Utilities. Oil reserves may ultimately exceed those in all of the other oil fields in Alberta, excluding the Athabasca oil sands.

CANADIAN COACHWAYS

In May of 1966, Sunburst Motor Coaches, Blue Goose Lines and Northland Arrow Lines were added to the expanding bus system of Canadian Coachways. These new subsidiaries operate from Edmonton to the east, south and north throughout Alberta. Their 40 additional coaches bring the system to approximately 130 units serving 8,000 miles of highway.

Most of the old gas engine coaches have been sold, and ten new diesel units have been ordered, reducing the average age of our buses to about four years.

Non-profitable segments of the operation are gradually being disposed of. Whenever possible, land and buildings are also being sold and ground facilities are rented or leased from private enterprises. Where practical, combined working arrangements are made with sister companies of the I U Corp. group.

Total capital expenditure by the Coachways system, including the acquisitions, amounted to $2,255,000 in 1966 and are estimated at $673,000 in 1967.

The total investment of I U Corp. in capital stock and promissory notes of Canadian Coach-

REVIEW OF OPERATIONS

ways amounted to $4,989,208 at the end of last year. There were outstanding bank loans of $945,000 and long-term debt of $300,000.

INDUSTRIAL OPERATIONS

I U U S, through its new divisions, Brown Brothers Contractors, Inc. and The Kaiser-Nelson Corporation, and its industrial affiliates continue to expand their materials handling, metal recovery and demolition operations. New contracts and new facilities were acquired in 1966, and certain contracts and facilities, which were in various phases of start-up a year ago, were in full operation at year-end. Sales efforts were extended to develop new customers, and research efforts were expanded to provide new services.

Brown Brothers' cost control procedures had a beneficial effect on the recent acquisitions. Further, similar effects are anticipated in demolition operations when cost control procedures become fully effective there.

The demolition and salvage operations were expanded sharply in 1966, both in sales and earnings. Further expansion is planned for the future. The wide variety of projects of a short-term nature make this industry especially challenging. We now have broad experience in both industrial and commercial operations and have developed a management group which we are confident can deal with these problems on an organized basis.

A new Canadian affiliate, Kaiser-Nelson Demolition Limited, was formed during the year to participate in urban renewal and industrial modernization activities in Canada. Existing Canadian metal recovery facilities reached full operation in 1966, and contracts for additional facilities are being aggressively sought.

SHIPPING OPERATIONS

Combined net income of the shipping companies last year increased by $784,298 (U.S.) to $1,839,303 from the $1,055,005 reported for 1965. In addition, they paid I U Corp. or its affiliates interest income of $1,076,907 in 1966 ($471,815 in 1965) on cash advances for shipbuilding and vessel improvements.

No dividends have been received from the shipping companies, and it is expected that earnings will continue to be applied to reduce their mortgage debt. Any future distributions, however, would be taxable to I U Corp. at the then applicable tax rate (now 48%). A provision of 25% ($454,000 in 1966 and $307,000 in 1965) of the combined net income of the non-U.S. shipping companies has been charged against the consolidated net income of I U Corp. as a reserve for possible future taxes.

Much of the improvement in net earnings over last year was due (1) to the new ships added to the fleet during the year and (2) to the recovery, under contractual escalation clauses, of expenses incurred in prior years in the Argentine coal trade.

Earnings were adversely affected by damage to the tanker "Golar Jeanne Marie", when a typhoon swept her up on the beach near Yokohama harbour last September. Although the cost of repairs is fully covered by insurance, the vessel will be out of service for about six months. The aggregate loss in earnings was about $350,000 last year and is expected to be about the same in 1967.

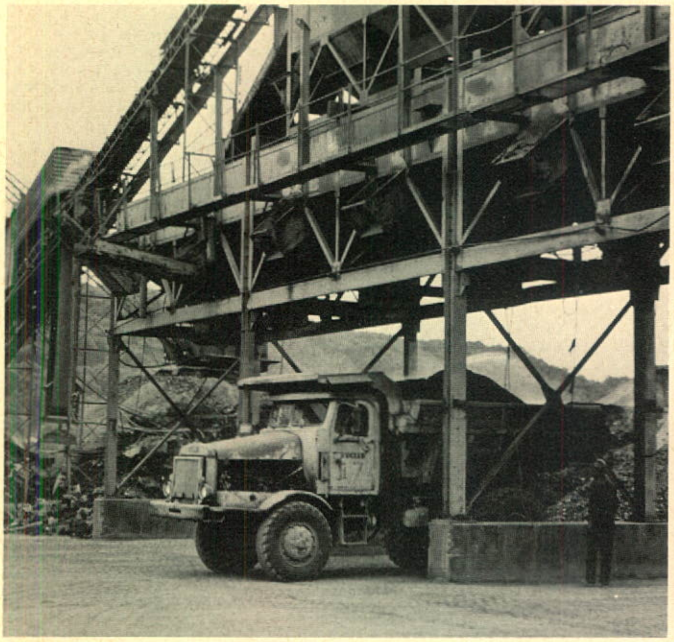
During 1966, the fleet enlargement and improvement program continued with the deliveries of four new ships, and the conversion of two tankers to bulk carriers of about 26,000 dwt (deadweight tons). The tankers "Golar Liz" of 106,539 dwt and the "Golar Nikko" of 110,030 dwt were delivered from the construction yards, together with the bulk/oil carrier "Sigtone" of 78,384 dwt and the bulk carrier "Sigfuji" of 80,032 dwt. During the year, we also acquired two bulk carriers, the "Golar Coal" and the "Golar Grain", each of 27,625 dwt, from a 44% owned affiliated company in exchange for our investments in stock and notes of the affiliate, and the assumption of the remaining mortgage debt on the two vessels. In addition, one bulk carrier of 53,540 dwt was time chartered inward.

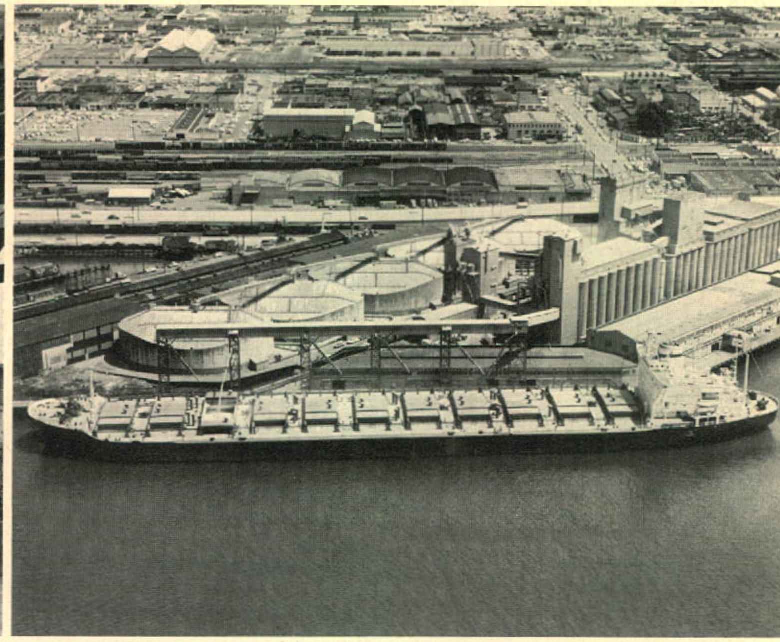
Under construction or on order, are two tankers each of about 74,000 dwt, one bulk carrier of about 25,000 dwt (contracted by a 51% owned subsidiary), and one bulk/oil carrier of about 68,000 dwt, all for delivery in 1967. For 1968 delivery, we have on order one tanker of about 106,000 dwt, one bulk carrier of about 25,000 dwt (also for the 51% owned subsidiary), and one refrigerator ship of about 310,000 cubic feet capacity. For 1969 delivery, an additional refrigerator ship is on order.

At year-end we owned, operated or had on order 30 ships aggregating more than 1,400,000 dwt of shipping. These consist of fifteen bulk carriers of about 598,000 dwt, ten tankers of about 763,000 dwt, two lightening ships of about 30,000 dwt and three refrigerator ships of about 18,000 dwt (880,000 cubic feet refrigerator capacity).

Expenditures on new construction, additions and conversions amounted to $43,057,000 in 1966. Commitments made for deliveries in 1967 through 1969 aggregated about $42,000,000.

At the end of 1966, the total investment of





Top left: Steel scrap recovery operations in the Pittsburgh District. Top right: The new 80,032 dwt "SIGFUJI", delivered to Triple Ocean Operation, Inc. in March 1966 loading a record cargo of 77,000 tons of grain at Seattle destined for Karachi. Bottom: The newest and largest vessel in our fast growing fleet, the 110,030 dwt tanker "GOLAR NIKKO".

I U Corp. and I U Overseas in capital stock and promissory notes of the shipping companies amounted to $39,293,000. Including the undistributed net earnings since acquisition, this investment was $45,122,000.

RYDER TRUCK LINES, INC.

Net income of Ryder for 1966, excluding special items, was $232,703 as compared to $534,265 for the full year 1965. In 1965, no provision was made for federal income taxes due to the utilization of a net operating loss carryover from prior years.

Last year can be characterized as one of rebuilding and reorganizing.

In the General Commodities Division, we were able to improve both our operating efficiency and the profit mix of shipments. The benefits of these improvement programs were not realized fully enough over the entire year, however, to offset the impact of two principal adverse factors: (1) increases in certain basic costs and (2) delays in securing approval from regulatory authorities to dispose of those intrastate operating rights which have had an adverse effect on profits.

The General Commodities Division expanded its operations in April, 1966 through the addition of Harris Express, Inc., under temporary management control granted by the Interstate Commerce Commission. Harris' operating authority extends from the Carolinas northeast through eastern Pennsylvania to the New York metropolitan area. Application is pending to acquire all of its outstanding stock. Since Ryder has management control without ownership, our net income, as reported above, does not reflect the operations of Harris.

Ryder has entered into a contract with Guignard Freight Lines, Inc. to purchase a portion of that company's operating authority between Charlotte, North Carolina, and Knoxville, Tennessee. Approval of acquisition of this route will open new markets by directly connecting the Carolinas with Ryder's midwestern territory.

In June, 1966, an agreement was entered into with Chemical Leaman Tank Lines, Inc. to exchange the Ryder Tank Line Division's operating authorities and assets for 350,000 shares of Chemical Leaman stock and cash. An application for approval of this transaction is pending before the Interstate Commerce Commission. Under a temporary authority granted by the Commission, the Tank Line Division has been operated by Chemical Leaman since October 2, 1966. The shares to be received will represent approximately 27% of the outstanding capital stock of Chemical Leaman, which is the largest public motor carrier of bulk commodities in the U.S. Chemical Leaman's 1966 gross revenues were $47,439,000, and net earnings were equal to $1.62 per share of stock.

In addition to providing us with an important participation in the attractive future of Chemical Leaman, our sale of the Tank Line Division will enable Ryder's management to concentrate its time and attention fully on developing the earnings of our residual investment in the General Commodities Division.

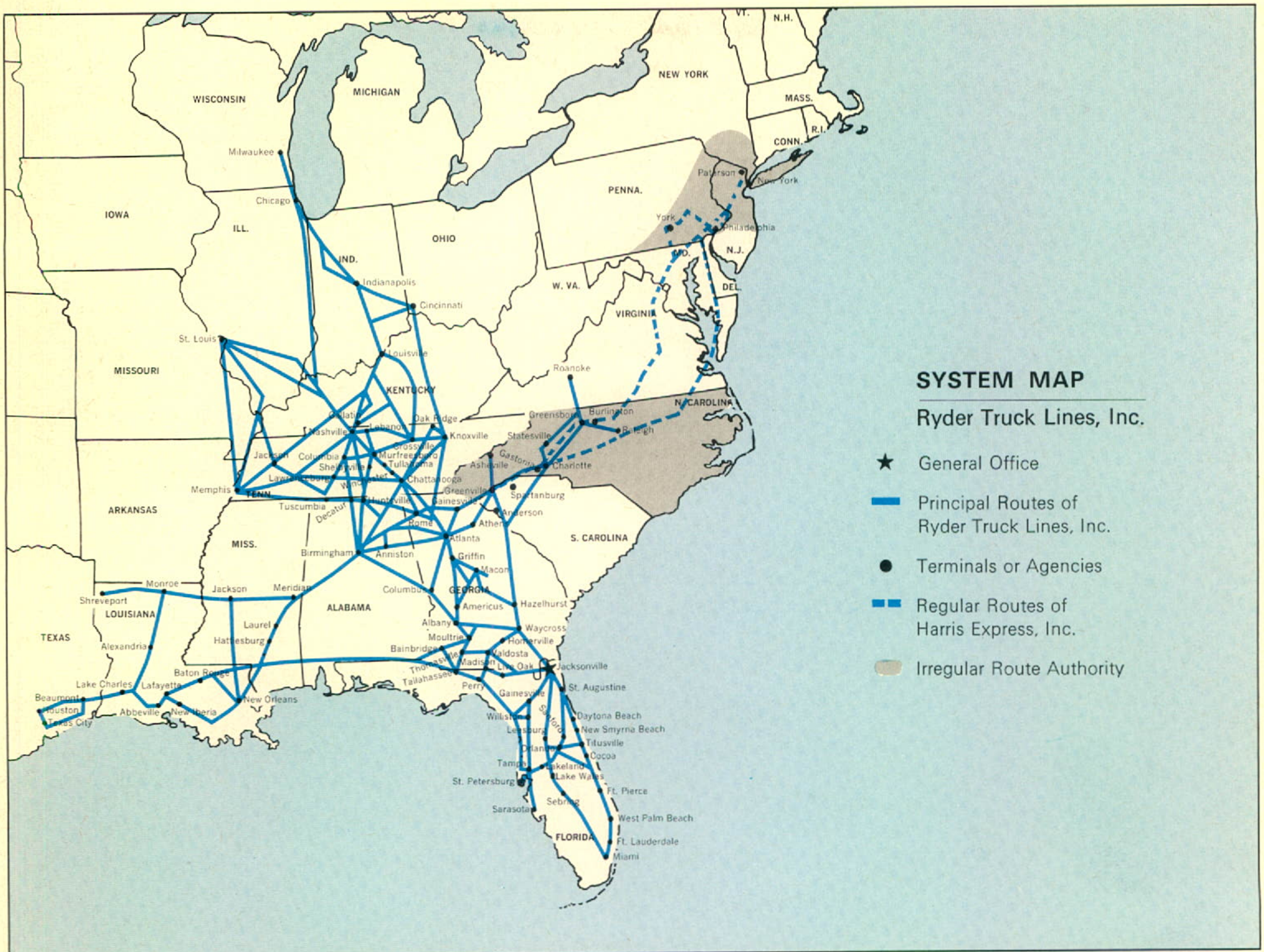
Ryder has yet to capitalize on its large potential and is expecting substantial operating gains in this and subsequent years. Debt reduction, equipment and plant modernization, and a reorganized management group provide support for our confidence in much improved results in 1967.

MARKETABLE SECURITIES

Marketable securities in the portfolios of our system companies aggregated $77,579,445 at their December 31, 1966 market prices (see schedule on page 16). This total includes temporary short-term investments of $11,260,879.

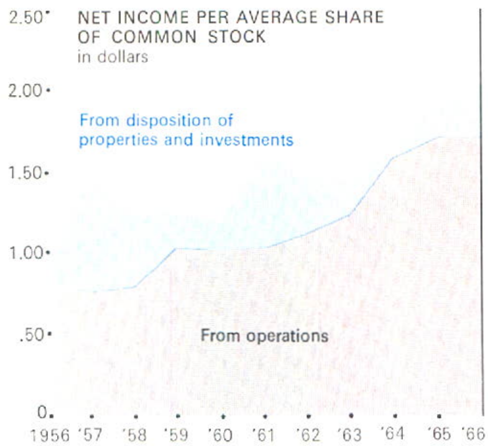
Additional shares of the Pennsylvania and New York Central railroad companies were acquired during the past year, bringing our total investments in those companies up to $12,215,061 at cost and $31,688,400 at year-end market prices. Upon consummation of the proposed merger, our present interest would become 600,000 shares of the new Pennsylvania New York Transportation Company. The merger was approved by the Interstate Commerce Commission last April but has been stayed by the U.S. Supreme Court. Although this delay is disappointing, we are confident that the amalgamation will soon be consummated and will result in very substantial benefits to the railroad companies and their shareholders.

Our investments in securities accounted for much of our $4,427,231 of interest and dividend income. Similarly, the major part of our $2,029,657 of net capital gains realized in 1966 was derived from the sale of securities. In all respects, then, our investment portfolio and our securities transactions continued to provide us with an important part of our total income in 1966, as they have for many years.



The first of 200 new diesel engine Ford tractors being placed in service by Ryder Truck Lines, Inc. with a new open top Strick trailer is shown with one of the company's new air-conditioned sleeper-cab Ford tractors coupled with a new 45-ft. Strick van.

REVIEW OF OPERATIONS



FINANCING

In last year's Annual Report, reference was made to a proposed sale of convertible debenture securities by our newly-organized subsidiary, International Utilities Overseas Capital Corporation. In May 1966, that company issued and sold $12,000,000 (U.S.) of 5¼% Bonds due 1986 at a public offering price of 97½% of par. The bonds are unconditionally guaranteed by I U Corp. and are convertible into common shares of I U Corp. at $32 (U.S.) per share.

The financing for the new and converted ships delivered in 1966 and also for the ships contracted for later deliveries has been arranged at very favourable interest rates. During 1966, about $28 million of new debt of the shipping companies was added to the $18 million outstanding at the beginning of the year. About $4 million was paid during the year, leaving a balance of about $42 million at the end of the year.

In February 1967, Canadian Utilities issued and sold to Canadian underwriters, new issues of $8,000,000 first mortgage 6½% Bonds due 1992 and $5,000,000 of 6% preferred stock.

During the past year, I U Corp. repurchased 57,000 of its outstanding $1.32 convertible preferred shares at an aggregate cost of $1,638,583 (U.S.). Of this amount, 30,000 shares, acquired at a cost of $895,670 (U.S.), were retired and cancelled in full satisfaction of the Corporation's purchase fund obligation for December 1966.

UNITED STATES AND CANADIAN WITHHOLDING TAXES ON DIVIDENDS

For the three years ended December 31, 1966, more than 80% of the gross income (as defined by U.S. tax law) of I U Corp. was derived from sources outside the U.S. Therefore, dividends declared and paid by I U Corp. in 1967, as well as in the five preceding years, will not constitute income from sources within the U.S. under the applicable provisions of the Internal Revenue Code, and no U.S. withholding tax is required from such dividends.

As a corporation resident in Canada, however, we are still required to deduct the 10% Canadian withholding tax from dividend payments to U.S. and other non-Canadian shareholders. In most cases, we believe that the Canadian tax withheld may be taken as a credit against the U.S. income tax payable by our U.S. shareholders on their income from our Corporation and other sources outside the U.S.

SHAREHOLDERS

At the year-end, there were 12,019 record owners of the Corporation's outstanding common shares and 6,584 record owners of the preferred, or a total of 18,603 shareholders, including some duplications. Of this number, 72.4% resided in Canada (including 9.6% in the Province of Alberta) and 26.6% in the U.S. Of the total number of shares outstanding, 59.5% was owned in Canada and 36.5% in the U.S. Most of the remaining shares were owned in the United Kingdom.

The shares are widely distributed among owners in every Canadian province, all of the fifty States, the District of Columbia and fourteen other countries. The average holding was 219 shares of preferred and 567 shares of common.

At the year-end, there were 11,151 holders of record of the preferred and common shares of our Alberta operating companies. Of these, 98.5% resided in Canada and 64.1% in the Province of Alberta.

EMPLOYEES

At the year-end, there were 7,877 employees of the system companies. Of this number, 1,810 were employed by the Canadian public utility subsidiaries, 892 by the shipping companies, 4,112 by Ryder and 1,063 by the industrial and other companies. In addition, an average of about 485 persons, principally construction workers, was employed by the Canadian subsidiaries, and 483 by Ryder, on a temporary basis during the year.

CONSOLIDATED BALANCE SHEET

as of December 31, 1966
with comparative figures
as of December 31, 1965
(Stated in Canadian currency—note 1)

ASSETS	1966	1965
Property, plant and equipment, at cost (note 2)	$390,422,346	$341,292,447
Less accumulated depreciation and amortization	102,821,819	99,308,452
Net property, plant and equipment	287,600,527	241,983,995
Investments, substantially at cost (note 1)	10,284,525	6,998,704
Construction funds — held by trustee subject to withdrawal upon certification of property additions	—	2,672,893
Current assets:		
Cash	7,418,113	10,631,876
Marketable securities, at cost (approximate market value $77,579,445 — 1966) (see page 16)	55,131,463	63,258,735
Consumers' service and other receivables	21,427,280	18,156,557
Inventories of merchandise, materials and supplies, including construction materials — stated at average cost or less	6,081,022	4,507,450
Trust funds for rural co-operative lines, per contra	3,623,065	3,156,084
Prepaid expenses	2,355,591	2,665,757
Total current assets	96,036,534	102,376,459
Unamortized debt discount and other deferred charges	2,832,525	2,277,390
Operating rights, franchises and other intangibles, substantially at cost	11,747,119	10,695,824
Total assets	$408,501,230	$367,005,265

LIABILITIES	1966	1965
Long-term debt (excluding current maturities) — (see page 17 and note 3)	$152,370,797	$125,324,439
Current liabilities:		
Loans payable to banks	5,895,000	280,000
Accounts payable and accrued liabilities	19,174,225	17,847,794
Provision for income taxes	5,471,459	4,514,203
Long-term debt — current maturities	10,242,085	9,146,416
Accrued interest on long-term debt and accrued dividends on preferred shares of subsidiaries	1,096,916	1,109,649
Consumers' and other deposits	3,253,573	3,145,184
Amounts held in trust for rural co-operative lines, per contra	3,623,065	3,156,084
Total current liabilities	48,756,323	39,199,330
Deferred credits and appropriations:		
Unearned revenues	606,020	897,344
Deferred income taxes (note 4)	4,569,475	4,840,566
Injuries and damages and other contingencies	1,098,736	1,042,968
Contributions for extensions	3,008,987	2,492,510
Total deferred credits and appropriations	9,283,218	9,273,388
Preferred stocks of subsidiaries held by minority	25,723,200	25,724,400
Minority interest in common stocks and surplus of subsidiaries	7,099,946	6,864,740
Shareholders' equity (see page 15)	165,267,746	160,618,968
Total liabilities	$408,501,230	$367,005,265

See pages 18 and 19 for notes to financial statements which are an integral part of this consolidated balance sheet.

STATEMENT OF CONSOLIDATED INCOME

for the year ended December 31, 1966 with comparative figures for 1965 (Stated in Canadian currency—note 1)

	1966	1965
Utility Operations:		
Revenues:		
Natural gas	$ 50,267,420	$ 47,884,692
Electricity	14,976,232	13,887,832
Interest and dividends	321,027	490,106
Other	769,366	657,825
	66,334,045	62,920,455
Deduct:		
Natural gas purchased	16,398,121	14,254,479
Depreciation and amortization	6,360,096	5,925,555
Taxes — other than income taxes	4,020,034	3,730,811
Other operating costs and expenses	18,947,900	17,649,452
Interest, principally on long-term debt	4,034,080	3,936,439
Provision for income taxes:		
Current	7,027,966	7,328,669
Deferred (note 4)	(54,722)	258,312
Dividends paid on preferred shares of subsidiaries and net income applicable to minority interests	2,032,077	1,965,899
	58,765,552	55,049,616
Net income from utility operations	7,568,493	7,870,839
Other Operations:		
Income:		
Trucking operations	70,081,370	30,198,564
Shipping operations	24,775,104	19,652,308
Industrial operations	19,110,550	13,044,328
Bus operations	4,730,214	3,206,401
Interest and dividends	4,106,204	2,329,783
Other	412,060	155,582
	123,215,502	68,586,966
Deduct:		
Costs and expenses exclusive of depreciation and amortization	100,568,576	54,652,406
Depreciation and amortization	9,962,908	5,760,642
Interest, principally on long-term debt	3,438,718	1,926,371
Provision for income taxes:		
Current	2,687,793	1,961,647
Deferred (note 4)	383,609	305,589
	117,041,604	64,606,655
Net income from other operations	6,173,898	3,980,311
Net income, excluding gain on disposition of properties and investments	13,742,391	11,851,150
Net gain on disposition of properties and investments, after deducting estimated U.S. capital gains tax of $559,981 ($134,709 including deferred income taxes in 1965) and other applicable expenses	2,029,657	1,351,427
Net income, including gain on disposition of properties and investments	$ 15,772,048	$ 13,202,577

See pages 18 and 19 for notes to financial statements which are an integral part of this statement of consolidated income.

SHAREHOLDERS' EQUITY

as of December 31, 1966 with comparative figures as of December 31, 1965 (Stated in Canadian currency—note 1)

	1966	1965
Preferred stock, without par value (note 5):		
Authorized for issuance, 1,470,000 shares $1.32 convertible preferred stock and 1,500,000 shares unclassified as to series		
Issued, 1,470,000 shares $1.32 convertible preferred stock as of December 31, 1966 ($48,510,000 U.S.) (1,500,000 shares and $49,500,000 U.S. in 1965)	$ 52,161,291	$ 53,225,806
Common stock, par value $2.50 per share:		
Authorized, 12,000,000 shares; reserved for conversion of preferred stock, 1,470,000 shares, exercise of stock options, 214,957 shares, and conversion of debentures of a subsidiary, 375,000 shares (notes 5, 6 and 7)		
Issued, 6,822,837 shares as of December 31, 1966 (6,811,123 shares in 1965)	17,057,094	17,027,810
Surplus, per accompanying statements:		
Paid-in surplus (see statement below)	35,977,726	35,657,922
Earned surplus (see statement below and note 3)	60,872,282	54,707,430
	166,068,393	160,618,968
Less 27,000 shares $1.32 convertible preferred stock repurchased, at cost (note 5)	800,647	—
Total shareholders' equity	**$165,267,746**	**$160,618,968**

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

for the year ended December 31, 1966 with comparative figures for 1965 (Stated in Canadian currency—note 1)

	1966	1965
Balance at beginning of year	**$ 35,657,922**	**$ 36,655,325**
Add:		
Excess of net proceeds (cash or debentures converted) on issue of common shares by subsidiaries over net assets or par value applicable thereto	7,272	89,490
Premium on 7,217 (19,310 in 1965) common shares issued upon exercise of employees' stock options (note 6)	87,930	197,318
Excess of par value of 21,431 shares $2 convertible preferred over par value of 38,570 common shares issued on conversion	—	439,157
Excess of the assigned value (approximate market) over par value of 4,500 (40,000 in 1965) shares of common stock issued in exchange for capital shares of Canadian Coachways Limited (note 8)	114,750	1,020,000
Excess of issue price over cost of 30,000 shares $1.32 convertible preferred stock repurchased and cancelled in satisfaction of annual purchase obligation (note 5)	101,258	—
Adjustment in respect of common share bearer scrip	8	7
Other miscellaneous adjustments—net	8,586	1,708
	35,977,726	**38,403,005**
Deduct:		
Expenses incurred in connection with the issue and sale of 1,500,000 shares of $1.32 convertible preferred stock	—	2,737,799
Premium on redemption of 358 shares $2 convertible preferred stock	—	7,284
	—	2,745,083
Balance at end of year	**$ 35,977,726**	**$ 35,657,922**

STATEMENT OF CONSOLIDATED EARNED SURPLUS

for the year ended December 31, 1966 with comparative figures for 1965 (Stated in Canadian currency—note 1)

	1966	1965
Balance at beginning of year	**$ 54,707,430**	**$ 48,318,110**
Add:		
Net income for year per statement of consolidated income	15,772,048	13,202,577
	70,479,478	**61,520,687**
Deduct:		
Dividends:		
$2 convertible preferred	—	17,437
$1.32 convertible preferred	2,101,940	—
Common ($1.10 Canadian per share in 1966 and $1.00 per share in 1965)	7,503,238	6,787,978
	9,605,178	**6,805,415**
Earned surplus of Northland Utilities applicable to shares issued to minority	1,825	—
Excess of cost over par value of Northland securities acquired for cash	193	7,842
	9,607,196	**6,813,257**
Balance at end of year	**$ 60,872,282**	**$ 54,707,430**

See pages 18 and 19 for notes to financial statements which are an integral part of these statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1966 with comparative figures for 1965 (Stated in Canadian currency—note 1)

Funds provided:	1966	1965
From operations:		
Net income, including gain on disposition of properties and investments	$ 15,772,048	$ 13,202,577
Add charges not requiring cash expenditure, principally depreciation and amortization	17,437,575	12,149,049
	33,209,623	25,351,626
Disposition of property, plant and equipment	1,681,059	2,366,768
Sale of non-current investments	5,699,103	187,367
Issue of long-term debt, less expenses of issue	38,878,149	54,509,901
Issue of capital stock, less expenses of issue	231,972	51,853,600
Miscellaneous	1,253,287	1,476,798
Total	80,953,193	135,746,060
Applied as follows:		
Purchase of property, plant and equipment	70,070,939	40,022,370
Purchase of non-current investments	1,989,416	4,901,326
Reduction of long-term debt	11,004,216	19,457,206
Dividends on preferred and common shares	9,605,178	6,805,415
Book value of non-current assets, subject to long-term liabilities, of subsidiaries acquired during year	572,390	12,046,229
Excess of cost over underlying assets of subsidiaries acquired during year—assigned to operating rights and franchises	493,613	6,788,023
Miscellaneous	3,114,359	1,736,721
Total	96,850,111	91,757,290
Decrease (increase) in working capital	$ 15,896,918	$ (43,988,770)

MARKETABLE SECURITIES

as of December 31, 1966 (Stated in Canadian currency—note 1)

	Shares or principal amount	Market value
Canadian Investments:		
Peace River Mining & Smelting Limited—common stock	170,000	$ 1,190,000
Power Corporation of Canada, Limited:		
Common stock	400,000	3,800,000
6% participating preferred stock	39,080	370,882
White Pass and Yukon Corporation Limited, The—common stock	152,775	1,470,459
Other common stocks	—	731,803
Short-term notes and deposits	—	5,296,142
U.S. Investments:		
Common Stocks:		
American Water Works Company, Inc.	100,000	1,312,500
Atlantic Coast Line Company, The	65,700	2,053,125
C. Brewer and Company Limited	293,018	4,395,270
Congoleum-Nairn, Inc.	35,500	612,375
Consolidated Edison Company of New York, Inc.	27,800	879,175
International Packers Limited	26,000	214,500
Jerrold Corporation, The	245,252	5,763,422
Latrobe Steel Company	17,500	284,375
McCord Corporation	100,000	1,900,000
New York Central Railroad Company, The	279,000	19,111,500
Pacific Gas Transmission Company	100,000	1,200,000
Pennsylvania Railroad Company, The	237,300	12,576,900
Reliance Insurance Company	100,000	3,912,500
Short-term note	—	300,000
Bonds:		
Chicago, Milwaukee, St. Paul & Pacific Railroad Company, The—5% income debentures due 2055	$ 1,000,000	662,500
New York Central Railroad Company, The—4% mortgage bonds due 1998	$ 1,000,000	630,000
New York Central & Hudson River Railroad Company, The—		
4½% refunding and improvement mortgage bonds due 2013	$ 1,500,000	1,016,250
5% refunding and improvement mortgage bonds due 2013	$ 500,000	380,000
Missouri Pacific Railroad Company—		
4¾% income debentures due 2020 (Series A)	$ 650,000	442,000
4¾% income debentures due 2030 (Series B)	$ 550,000	365,750
5% income debentures due 2045	$ 1,512,000	1,043,280
Other Investments:		
Short-term notes and deposits	—	5,664,737
Total marketable securities		$ 77,579,445

LONG-TERM DEBT OUTSTANDING

as of December 31, 1966
(Stated in Canadian currency—note 1)

	Total amount	Current maturities
Canadian Western Natural Gas Company Limited:		
First mortgage sinking fund bonds:		
Series A—3½%—due April 1, 1971	$ 2,935,000	$ —
Series B—5¾%—due February 1, 1982	5,362,000	—
Series C—5⅜%—due April 1, 1983	3,571,000	—
Series D—5⅝%—due May 1, 1989	4,800,000	100,000
Northwestern Utilities, Limited:		
First mortgage sinking fund bonds:		
Series B—3½%—due December 15, 1971	1,473,250	204,750
Series C—3½%—due December 15, 1971	696,000	91,000
Series D—3⅝%—due December 15, 1971	1,940,000	227,500
Series E—3⅝%—due December 15, 1975	2,625,000	205,000
Series F—4¾%—due January 15, 1979	2,790,000	180,000
Series G—5⅜%—due April 15, 1983	5,551,500	—
Series H—5¾%—due March 1, 1988	10,737,000	—
Notes payable—3⅞%—due September 1, 1969 (payable in annual instalments increasing from $177,000 in 1967 to $183,000 in 1968)	540,000	177,000
Canadian Utilities, Limited:		
First mortgage sinking fund bonds:		
Series A—3⅛%—due June 1, 1972	1,670,000	42,500
Series B—3⅖%—due December 1, 1974	525,000	12,750
Series C—3⅖%—due December 1, 1975	2,235,000	51,000
Series D—4¼%—due November 1, 1979	3,720,000	40,000
Series E—4⅛%—due April 1, 1981	3,540,000	—
Series F—5½%—due December 1, 1986	5,000,000	—
Series G—5⅝%—due June 1, 1990	12,000,000	—
Convertible debentures—5¾%—Series A—due December 1, 1977 (11,934 common shares reserved for issuance on conversion—sinking fund payments of $100,000 commence in 1968)	331,500	—
Northland Utilities Limited:		
First mortgage sinking fund bonds:		
Series B—5%—due February 1, 1973	737,500	—
Series C—5¾%—due May 1, 1977	775,500	25,000
Series D—5¾%—due December 1, 1978	813,500	25,000
Series E—6¼%—due October 15, 1985	4,000,000	100,000
Canadian Coachways Limited:		
Mortgages and notes payable	380,709	80,790
	(payable in U.S. currency)	
International Utilities Inc.:		
Notes payable unsecured—5%—due December 1, 1985 (payable in annual instalments of $1,250,000 commencing in 1968)	25,000,000	—
International Utilities Overseas Capital Corporation:		
Convertible bonds—5¼%—due June 1, 1986 (payable commencing June 1, 1977 in ten annual instalments each equal to 10% of the principal outstanding on December 31, 1976) (note 7)	12,000,000	—
Gotaas-Larsen companies:		
Notes payable secured:		
The Chase Manhattan Bank—5¼%—due 1971	3,070,000	600,000
The Provident National Bank—5¼%—due 1972	1,700,000	100,000
Kawasaki Dockyard Co. Ltd.:		
5½%—due 1970	2,130,450	608,700
5½%—due 1973	3,537,716	544,264
5½%—due 1973	5,010,864	770,902
5½%—due 1974	5,974,492	770,902
Kure Shipbuilding & Engineering Co. Ltd.—5½%—due 1974	11,497,500	1,575,000
Mitsubishi Heavy Industries, Ltd.:		
5½%—due 1968	1,185,240	677,280
5½%—due 1971	1,400,000	280,000
Chemical Bank New York Trust Company—7%—due 1973	5,950,000	600,000
Sundry	111,916	2,905
Notes payable unsecured—sundry	375,625	100,000
Ryder Truck Lines, Inc.:		
Notes payable unsecured—Chemical Bank New York Trust Company—6½%—due 1969	4,919,620	2,049,842
Total long-term debt of subsidiaries	$162,612,882	$ 10,242,085

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 1966

Note 1 The consolidated financial statements are stated in Canadian currency and include the accounts of International Utilities Corporation and all its subsidiaries; all material intercompany items and transactions have been eliminated on consolidation.

An agreement has been entered into for the sale of a division of the trucking subsidiary. Consummation of the agreement is pending approval by the Interstate Commerce Commission and other regulatory authorities. Pending consummation of the sale the purchaser is operating the division under a temporary authority from the Interstate Commerce Commission and accordingly the operating results of the division, from the effective date of the temporary authority, have been excluded from the statement of consolidated income. The Corporation's equity in and advances to the division amounting to $4,554,623 have been included in investments at December 31, 1966. On consummation of the agreement it is anticipated that the transaction will result in a gain to the Corporation, but the final amount cannot be determined at this time.

The Corporation and its utility and motorbus subsidiaries operate in Canada and maintain their accounts in Canadian currency. The accounts of all other subsidiaries, which do not operate in Canada, are either maintained in or converted into U.S. currency and are included herein on a dollar-for-dollar basis in Canadian currency.

Net assets of subsidiaries whose accounts are maintained in or converted into U.S. currency which have been reflected on a dollar-for-dollar basis in the consolidated financial statements aggregate approximately $34,700,000 as of December 31, 1966 and the combined net income, including gain on disposition of properties and investments, of such subsidiaries which has not been remitted to the Corporation in the form of dividends and which is included on a dollar-for-dollar basis in the consolidated financial statements for the year ended December 31, 1966, amounts to approximately $4,400,000.

Note 2 Property, plant and equipment which includes approximately $2,280,000 (1965—$2,060,000) classified as intangibles and goodwill is summarized below:

	1966			1965
	Gross	Accumulated depreciation and amortization	Net	Net
Utility operations	$243,005,608	62,586,649	180,418,959	167,639,276
Trucking operations	35,565,896	19,481,135	16,084,761	25,074,812
Shipping operations	95,646,917	13,486,509	82,160,408	42,042,949
Industrial operations	10,934,266	5,279,151	5,655,115	5,216,971
Bus operations	5,269,659	1,988,375	3,281,284	2,009,987
	$390,422,346	102,821,819	287,600,527	241,983,995

Note 3 The long-term debt outstanding is stated after deducting $615,000 Series A, $198,000 Series B and $134,000 Series C bonds of Canadian Western, $193,500 Series G and $318,000 Series H bonds of Northwestern, $125,000 Series E bonds of Canadian Utilities and $30,000 Series B bonds of Northland Utilities which have been repurchased and are held for future sinking fund payments.

Sinking fund requirements and instalments of long-term debt maturing in each of the years 1968, 1969, 1970 and 1971 amount to $11,994,145, $11,368,269, $9,601,127 and $12,641,920, respectively, after deducting bonds which have been repurchased as described in the preceding paragraph and excluding requirements which may be satisfied by certification of property additions.

The bond indentures and note agreements executed by certain subsidiaries place limitations on the Corporation and its subsidiaries including restrictions on the payment of dividends on the Corporation's common stock. Of the consolidated earned surplus of the Corporation at December 31, 1966 approximately $20,900,000 was free from such restrictions.

Note 4 Certain utility subsidiaries are claiming depreciation for income tax purposes in excess of the amounts recorded in their accounts without providing for the resulting income tax deferral. In fixing rates, those utilities are permitted to recover only income taxes payable currently. Accordingly, no provision has been made in the accounts of those subsidiaries for this deferral of income taxes which amounted to approximately $572,000 in 1966 and $622,000 in 1965 and an aggregate of $8,028,000 to December 31, 1966.

The tax laws of the various countries in which the Gotaas-Larsen companies operate are such that their income is substantially free of income taxes in those countries. However, a provision for income taxes aggregating $1,433,000, representing 25% of the net non-U.S. earnings of the Gotaas-Larsen companies since acquisition, has been provided in the consolidated accounts as an estimate for U.S. income taxes which may become payable in the future.

Note 5 The $1.32 Convertible Preferred Stock is entitled to cumulative dividends of $1.32 (U.S.) per annum, payable quarterly, has voting rights and is entitled to receive $33 (U.S.) per share plus accrued and unpaid dividends upon voluntary or involuntary liquidation. Each share of $1.32 Convertible Preferred Stock is convertible into one common share on or before December 1, 1969, .9 of a common share thereafter and on or before December 1, 1972 and .8 of a common share thereafter. The $1.32 Convertible Preferred Stock is redeemable, in whole or in part, on 30 days' notice on or after December 1, 1970 at $33 (U.S.) per share, plus accrued and unpaid dividends.

Between December 1 and December 10 in each year, the Corporation is required to purchase all shares of $1.32 Convertible Preferred Stock tendered to it during the calendar months of October and November next preceding such ten-day period, up to a maximum of 2% of the number of shares of $1.32 Convertible Preferred Stock originally issued, at a price equal to the redemption price plus accrued and unpaid dividends. However, shares of $1.32 Convertible Preferred Stock purchased by the Corporation at prices not in excess of the redemption price at any time prior to December 1 in each year and not previously retired and cancelled may be applied as a credit against the purchase obligation with respect to that year or any subsequent year. During 1966 the purchase obligation was satisfied by the retirement and cancellation of 30,000 shares purchased prior to December 1, 1966. In addition, a further 27,000 shares of $1.32 Convertible Preferred Stock were purchased during 1966 at a cost of $800,647 and were held by the Corporation at December 31, 1966.

Note 6 Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1966 for the purchase of 56,457 shares of common stock of the Corporation. Of this total, options with respect to 14,957 shares were held under Employees Stock Option Plan B adopted March 11, 1959 and options with respect to 41,500 shares were held under Employees Stock Option Plan C adopted April 27, 1966.

The Plan B options, granted at prices not less than 85% of the fair market value of the stock at the date of grant, are exercisable in variable amounts over a period of seven years from the date of grant. The plan terminated on March 10, 1966 with respect to shares available for the granting of additional options.

Plan C provides for the granting of options to purchase a maximum of 200,000 shares of common stock of the Corporation. The options may be granted at prices not less than 90% of the fair market value of the stock at the date of grant, except that options granted to employees who are either citizens or residents of the United States at the date of grant will have an option price not less than 100% of the fair market value of the stock at the date of grant. Options granted are exercisable in variable amounts over a period of five years from the date of grant.

The changes in the outstanding options during 1966 were as follows:

	Number of shares	Option price per share
Shares under option at December 31, 1965	27,354	$12.50 - 26.50
Granted during 1966	43,500	$23.125 - 28.875
Exercised during 1966	(7,217)	$12.50 - 20.50
Cancelled during 1966	(7,180)	$20.50 - 28.875
Shares under option at December 31, 1966	56,457	$17.50 - 28.875

The aggregate cash consideration received in connection with the options exercised during 1966 was $105,973.

At December 31, 1966 there were 158,500 shares available for the granting of additional options under Plan C. The plan terminates on March 17, 1976, or such earlier date as the Directors of the Corporation may decide, with respect to shares available for the granting of additional options.

Note 7 During 1966 a wholly-owned subsidiary, International Utilities Overseas Capital Corporation, issued $12,000,000 (U.S.) principal amount of 5¼% Guaranteed Convertible Bonds 1986 which will be convertible on and after August 1, 1967, and prior to maturity, into common stock of International Utilities Corporation at $32 (U.S.) per share. The parent company has guaranteed all payments and obligations arising under the bonds.

Note 8 In February, 1966 the Corporation acquired the outstanding capital shares of Canadian Coachways Limited which had previously been held by a minority shareholder in exchange for 4,500 authorized, but unissued shares of common stock of the Corporation. The 4,500 shares were recorded at $28 per share, the value designated by the Board of Directors as the fair value of such shares.

Note 9 The Corporation and certain of its subsidiaries have in effect pension plans covering substantially all of their employees. At December 31, 1966 the aggregate unfunded liabilities for past service costs under the plans amounted to approximately $2,550,000. Such unfunded liabilities, generally, are being absorbed as charges against income on bases which will result in their amortization over periods of approximately twenty years. During 1966 approximately $850,000 was charged against income in respect of current services and in respect of the amortization of unfunded liabilities for past service costs.

Note 10 The Gotaas-Larsen companies have contracted for the purchase of eight vessels now under construction for an aggregate cost of approximately $44,000,000 of which $2,000,000 has been paid through December 31, 1966. Mortgage financing aggregating approximately $35,000,000 has been arranged.

The Gotaas-Larsen companies are obligated under inward time charter agreements covering six vessels. Hire payments under such agreements aggregated approximately $5,500,000 in 1966, of which approximately $4,500,000 was paid on long-term charter agreements expiring from 1976 to 1978.

Other lease obligations include long-term rentals which aggregate approximately $900,000 annually. Of this amount approximately $800,000 relates to leases expiring after December 31, 1976.

Certain other subsidiaries have commitments at December 31, 1966 aggregating approximately $22,400,000 for the construction of new plant and the purchase of new equipment. Subsequent to December 31, 1966 a utility subsidiary issued mortgage bonds in the principal sum of $8,000,000 to finance, in part, its commitments for new plant construction.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS
PRUDENTIAL BUILDING
KING AND YONGE STREETS
TORONTO 1, ONTARIO

Accountants' Report

To the Board of Directors and Shareholders
of International Utilities Corporation

We have examined the consolidated balance sheet of International Utilities Corporation and subsidiaries as of December 31, 1966 and the related statements of consolidated income and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and consolidated surplus present fairly the financial position of International Utilities Corporation and subsidiaries at December 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Toronto, Ontario
February 23, 1967

Chartered Accountants

COMPARATIVE TEN-YEAR RECORD

FINANCIAL[1]	1966	1965	1964
Consolidated net income	$ 15,772,048	$ 13,202,577	$ 11,506,195
Excluding gain on disposition of properties and investments	13,742,391	11,851,150	10,670,115
Gain on disposition of properties and investments (net)	2,029,657	1,351,427	836,080
Earned per share of common stock:[2]			
Total earnings	2.01	1.91	1.71
Excluding gain on disposition of properties and investments	1.71	1.72	1.58
Dividends per common share[2]	1.10	1.00	.90
Earned surplus (consolidated)	60,872,282	54,707,430	48,318,110
Shareholders' equity (consolidated)	165,267,746	160,618,968	102,301,277
Total assets (consolidated)	$408,501,230	$367,005,265	$249,084,210
Shares outstanding:			
$1.32 convertible preferred, less treasury stock	1,443,000	1,500,000	—
Common[2]	6,822,837	6,811,123	6,751,816

STATISTICAL	1966	1965	1964
Number of customers at end of year:			
Natural gas	247,157	239,392	231,484
Electric	65,487	63,600	64,021
Total	312,644	302,992	295,505
Revenue—sale of natural gas:			
Residential	$ 24,539	$ 24,018	$ 21,654
Commercial	14,433	13,624	12,076
Industrial, etc.	11,295	10,243	9,396
Other subsidiaries—eliminated on consolidation	122	163	218
	50,389	48,048	43,344
Rate deficiency credit—less amortization	—	—	—
Total	$ 50,389	$ 48,048	$ 43,344
MCF natural gas sold:			
Residential	48,219	47,500	41,858
Commercial	39,943	37,450	33,196
Industrial, etc.	57,685	52,434	46,982
Other subsidiaries	381	472	827
Total	146,228	137,856	122,863
Revenue—sale of electricity:			
Residential	$ 3,902	$ 3,698	$ 3,558
General service[3]	5,281	4,807	4,981
Industrial	3,086	2,617	2,379
Other sales, including rural and municipal	2,707	2,766	2,278
Total	$ 14,976	$ 13,888	$ 13,196
KWH electricity sold:			
Residential	141,351	133,924	116,791
General service[3]	144,308	130,665	112,129
Industrial	142,418	115,403	96,332
Other sales, including rural and municipal	133,917	182,276	99,419
Total	561,994	562,268	424,671

(1) The amounts for the years subsequent to 1960 are expressed in Canadian currency and include income arising in United States currency which has been converted on a dollar-for-dollar basis. For the year 1960 and prior, the amounts shown are expressed in United States currency, with the Canadian currency accounts of the subsidiaries included therein on a dollar-for-dollar basis.

(2) Based on average shares outstanding during the year. The number of common shares, earnings per share and dividends per share for prior years have been adjusted to basis of shares outstanding at the end of each year after giving

1963	1962	1961	1960	1959	1958	1957
$ 9,129,267	$ 8,562,969	$ 9,837,721	$ 6,512,987	$ 6,144,360	$ 6,045,862	$ 7,175,281
7,802,479	7,032,806	6,584,771	5,936,065	5,314,234	3,911,110	3,634,795
1,326,788	1,530,163	3,252,950	576,922	830,126	2,134,752	3,540,486
1.44	1.40	1.61	1.14	1.24	1.24	1.47
1.23	1.15	1.08	1.04	1.07	.80	.74
.80	.77½	.75	.70	.62½	.55	.50
43,122,248	39,360,988	35,905,026	29,577,327	27,277,214	24,199,513	21,104,629
96,787,712	79,523,747	75,811,013	65,654,347	59,750,111	43,371,124	40,208,591
$233,531,565	$190,531,419	$183,565,799	$170,458,627	$161,669,038	$147,986,588	$124,502,398
—	—	—	—	—	—	—
6,730,418	6,136,649	6,118,739	5,739,862	5,620,360	4,896,678	4,886,166
222,822	214,806	204,126	185,885	176,252	163,119	150,142
62,523	61,274	58,557	46,082	44,055	41,592	38,094
285,345	**276,080**	**262,683**	**231,967**	**220,307**	**204,711**	**188,236**
(000 omitted)						
$ 20,021	$ 19,769	$ 18,276	$ 17,026	$ 14,340	$ 11,427	$ 10,850
10,795	10,480	9,603	8,279	7,032	5,764	5,480
9,080	8,231	7,592	7,184	6,274	5,392	5,348
205	163	95	72	48	17	100
40,101	**38,643**	**35,566**	**32,561**	**27,694**	**22,600**	**21,778**
(425)	(650)	(650)	(650)	2,375	—	—
$ 39,676	**$ 37,993**	**$ 34,916**	**$ 31,911**	**$ 30,069**	**$ 22,600**	**$ 21,778**
38,770	38,547	35,930	34,546	33,660	29,713	28,796
29,916	28,810	26,722	24,051	23,448	21,275	20,549
45,520	41,327	38,331	36,833	37,020	34,536	33,906
802	650	401	272	232	90	569
115,008	**109,334**	**101,384**	**95,702**	**94,360**	**85,614**	**83,820**
$ 3,343	$ 3,147	$ 2,749	$ 2,023	$ 1,831	$ 1,596	$ 1,330
3,607	3,152	2,782	1,791	1,595	1,388	1,045
3,249	3,172	2,996	2,638	2,242	1,876	1,785
2,006	1,922	1,755	1,298	1,307	1,062	874
$ 12,205	**$ 11,393**	**$ 10,282**	**$ 7,750**	**$ 6,975**	**$ 5,922**	**$ 5,034**
104,825	93,536	79,876	58,368	51,411	43,018	36,372
71,271	60,163	52,430	34,747	30,839	26,219	20,085
109,205	102,075	95,672	85,712	76,110	64,361	61,602
85,960	77,314	65,913	57,703	58,544	47,913	34,867
371,261	**333,088**	**293,891**	**236,530**	**216,904**	**181,511**	**152,926**

effect to (1) the 100% conversion of $1.40 convertible preferred stock which was called for redemption on April 1, 1957, (2) the share-for-share distribution of common stock made on August 31, 1957, (3) the two-for-one stock split which became effective May 15, 1963, and (4) the 100% conversion of $2.00 convertible preferred stock which was called for redemption on June 1, 1965.

(3) Reclassification of service in 1964 classified as commercial and small industrial in prior years.

INTERNATIONAL UTILITIES CORPORATION

Policy and aims of system companies

To provide dependable gas, electric and other services to their customers at the lowest rates which are economically sound.

To give stable employment at fair wages and under good working conditions.

To earn for those who have invested their savings in this enterprise a fair return on their investment.

The companies seek to fulfill their civic obligations by taking an active part in movements designed to bring about progress and betterment in the communities they serve.

Cover
Terrain of the Bathurst Inlet area, Northwest Territories, Canada. *George Hunter, Toronto*

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