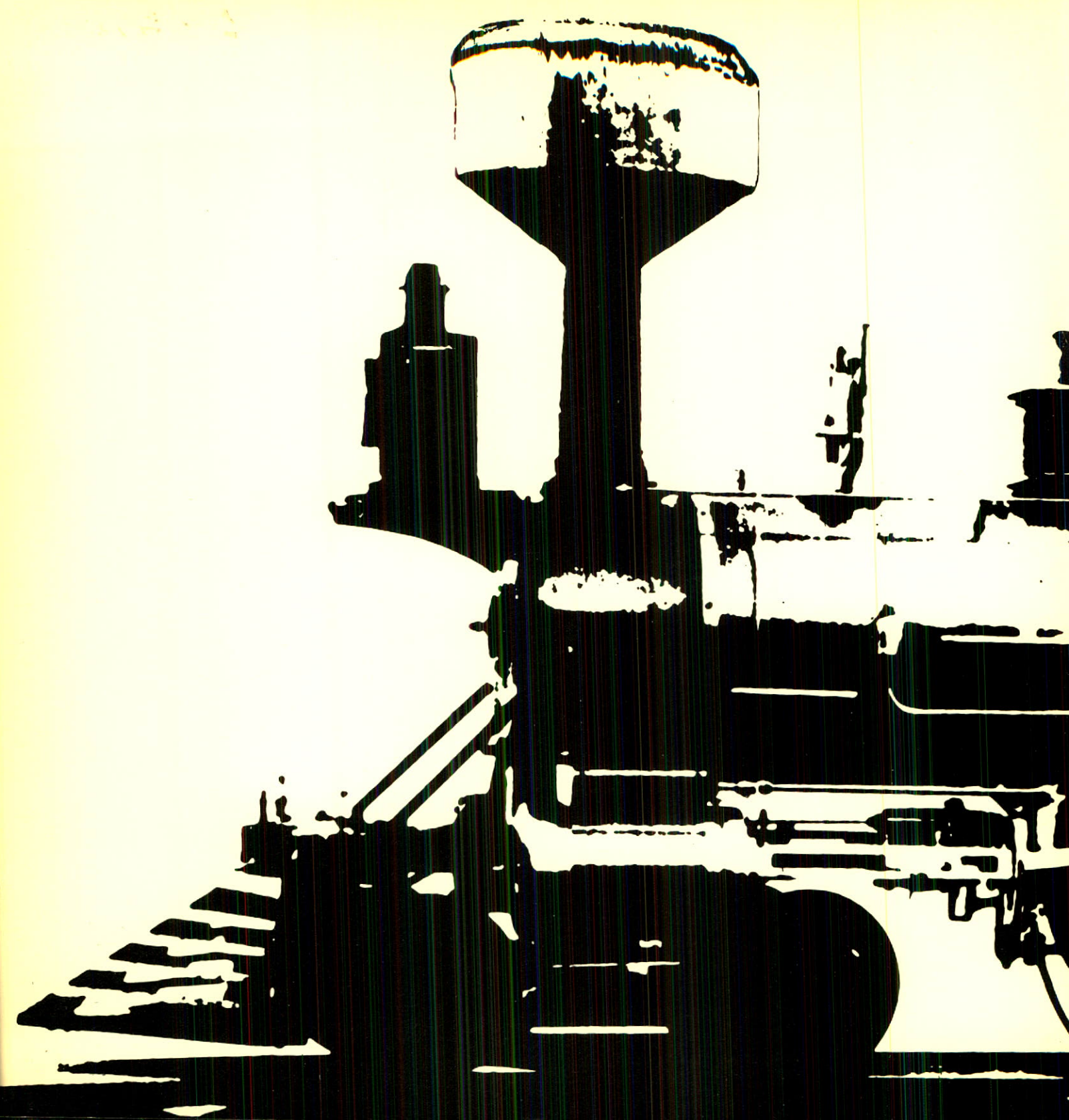




Annual Report 1966



e - stack.

Table of Contents

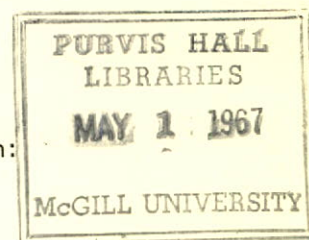
- 3 Financial Review
- 8 Freight Services
- 10 Passenger Services
- 13 Personnel and Labour Relations
- 15 System Activities
- 21 Commentary
- 25 Executive and General Officers
- 26 Companies in CN System
- 27 Financial and Statistical Statements

Highlights of the Year

- Financial improvement continues, page 3
- Freight revenues up 9.6%, page 4
- Passenger revenues up 15.8%, page 4
- Operating expenses increase by 7.9%, page 6
- Labour negotiations, page 13
- Centennial activities, page 15

Le Secrétaire
des Chemins de fer Nationaux du Canada
C.P. 8100, Montréal (P.Q.)
enverra sur demande le texte français du Rapport annuel de 1966.

Copies of the 1966 Annual Report in French may be obtained, upon request, from:
The Secretary,
Canadian National Railways,
Box 8100, Montreal, Que.



Board of Directors

Donald Gordon, C.M.G., LL.D., D.C.L.
Chairman, Montreal (Until December 31st, 1966)

J. R. Griffith
Saskatoon

R. A. Brown
Calgary (Until December 31st, 1966)

W. C. Koerner, LL.D.
Vancouver

J. L. Lévesque, D.Sc., D.P.Ec., LL.D.
Montreal (Until December 31st, 1966)

C. A. Pippy
St. John's

D. A. Anderson
Toronto

C. A. Curtis, Ph.D., F.R.S.C.
Kingston

N. P. Dryden
Moncton

H. T. Huston
Rossburn, Man.

Bernard A. Tailleux
Montreal

Renault St-Laurent, Q.C.
Quebec

Effective January 1st, 1967:

N. J. MacMillan, Q.C.
Chairman, Montreal

Georges-Emile Lapalme, Q.C.
Montreal

H. C. Pinder
Saskatoon

To The Honourable
The Minister of Transport
Ottawa, Canada.

The Board of Directors submits
hereunder the Annual Report
of Canadian National Railways
for the year 1966.

Financial Review

General

All major services reported increased business and higher revenues during 1966 and, despite rising expenses and a costly strike, CN continued to show the steady improvement in its overall financial position that has been evident in recent years.

The following table indicates significant trends over the past six years:

	1966	1965	1964	1963	1962	1961
	(In Millions)					
Gross revenues	\$998.6	\$914.7	\$864.2	\$800.0	\$772.1	\$745.5
Less non-rail revenues*	92.5	87.4	81.6	74.8	70.5	68.1
Railway operating revenues	906.1	827.3	782.6	725.2	701.6	677.4
Railway operating expenses	881.9	817.4	775.2	720.2	707.4	693.6
Net railway operating profit or (loss)	24.2	9.9	7.4	5.0	(5.8)	(16.2)
Other income	15.9	18.6	16.5	16.2	19.4	11.4
Net profit or (loss) before interest	40.1	28.5	23.9	21.2	13.6	(4.8)
Net interest on debt	64.7	61.9	62.6	64.2	62.5	62.5
Deficit	\$ 24.6	\$ 33.4	\$ 38.7	\$ 43.0	\$ 48.9	\$ 67.3

*Telecommunications (commercial services), CN-operated hotels and separately operated trucking companies. Net results of these operations and other transactions are included in Other Income.

As the table shows, gross revenues reached a record \$998.6 million while the net profit before interest was further improved and the overall deficit again declined.

The \$40.1 million net profit was greater by 40.7% than the previous year. The overall deficit of \$24.6 million was smaller by 26.3% than in 1965. The latter figure represents continuation of a trend which has seen the overall deficit decline by 63.6% since 1960 when it was \$67.5 million.

Revenues

Railway operating revenues for 1966 amounted to \$906.1 million, an improvement of 9.5% over 1965.

Railway freight services revenues totalled \$717.2 million, an increase of 9.6% over 1965. As indicated in the chart on the opposite page, there were increases over the previous year in each month except August and December.

Freight services revenues include the amount of \$17.5 million, representing the 1966 portion of a total payment of \$39.3 million received from the Federal Government for the maintenance of the rates of freight traffic at reduced levels and in recognition of wage awards granted in 1964. The balance of \$21.8 million, applicable to 1964 and 1965, has been recorded as a prior year adjustment in other income.

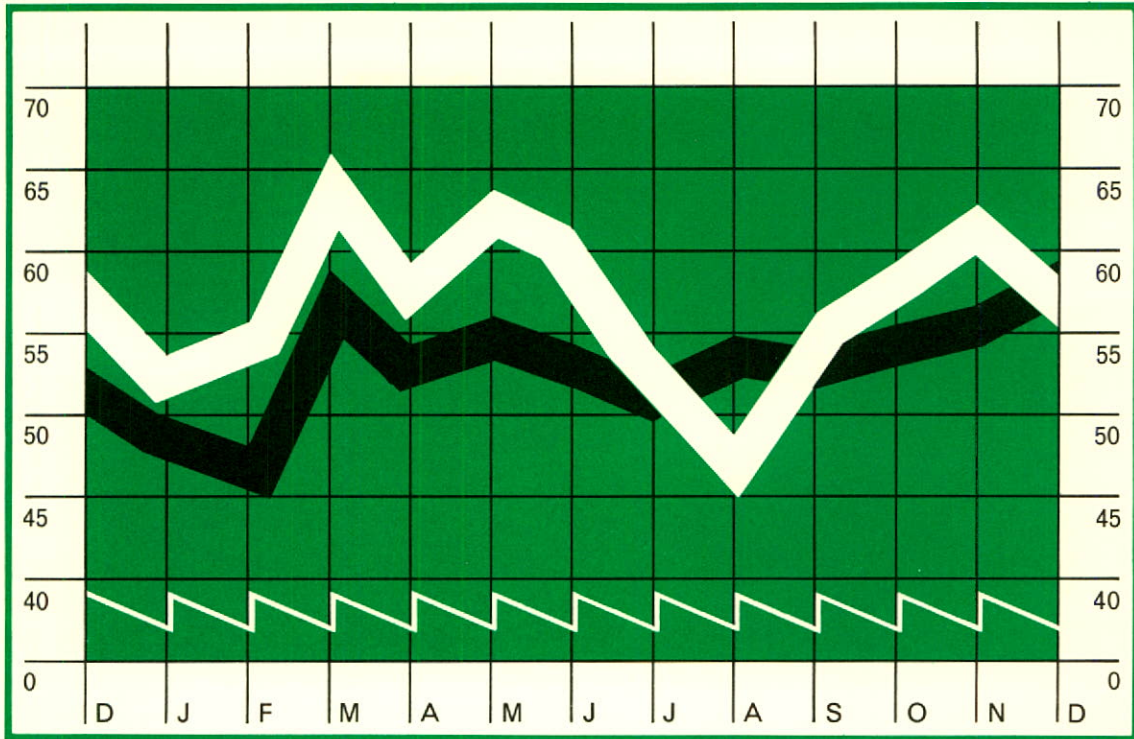
Passenger services revenues reached a total of \$67.5 million; the highest figure since 1945 and an increase of 15.8% over the previous year. Monthly passenger revenues showed improvement over the previous year except in August and September, due to the railway strike. The chart on the opposite page shows the trend in passenger services revenues since 1956. The chart illustrates the improvements since 1961 and the dramatic increase since 1963 when the results of the Company's positive approach to the passenger business began to become apparent.

Most other services also showed revenue increases. Gross revenues from Telecommunications commercial services were up 9.5%; gross revenues from CN-operated hotels were up 8.2% but gross revenues from separately operated trucking companies decreased 0.7%, due to a strike in the road transport industry.

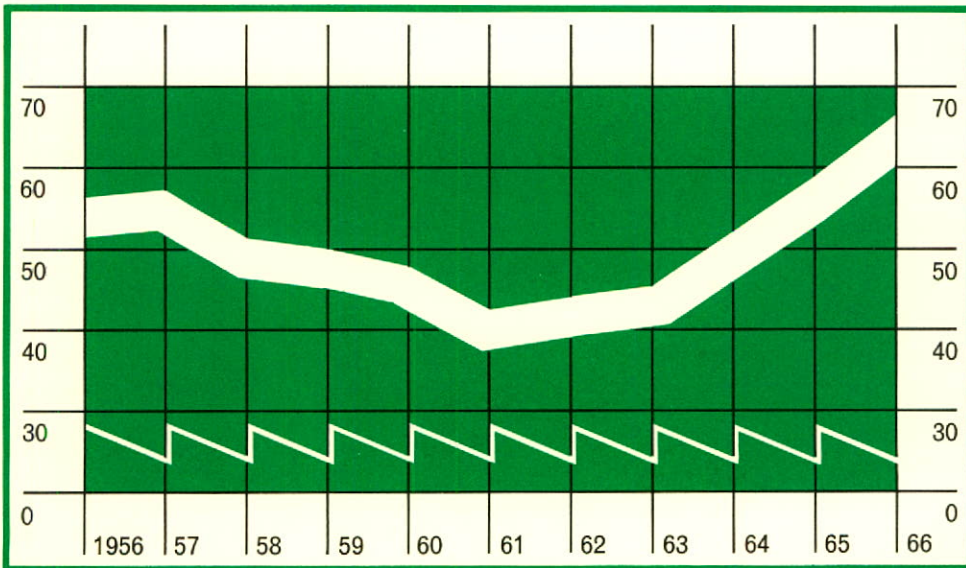
Net income from other sources amounted to \$6.1 million compared with \$10.6 million in 1965. The decrease of \$4.5 million resulted mainly from a charge in 1966 setting up the estimated liability to pay employees for vacations earned during the current year, heretofore not recorded in the accounts. The impact of this charge was reduced by the prior years' portion of the payment received from the Federal Government for the maintenance of the rates of freight traffic at reduced levels and in recognition of wage awards granted in 1964.

System Freight Services Revenues, 1965-1966
Millions of Dollars

1965 1966



System Passenger Services Revenues, 1956-1966
Millions of Dollars



The Federal Government subsidies included in railway operating revenues are shown in the following table and compared with 1965:

	1966 (In Millions)	1965	Increase or (Decrease)
Freight Rates Reduction Subsidy	\$11.4	\$10.7	\$ 0.7
Maritime Freight Rates Act	12.2	12.8	(0.6)
East-West Bridge Subsidy	2.9	2.9	—
At-and-East Grain Rates Subsidy	0.8	—	0.8
Payment re reduced freight rates and 1964 wage awards	17.5	—	17.5
Total included in freight services revenues	44.8	26.4	18.4
Interim Payments*	29.2	28.8	0.4
Newfoundland and P.E.I. Steamship Services	24.4	21.5	2.9
Total	\$98.4	\$76.7	\$21.7

*Related to recommendations of the MacPherson Royal Commission on Transportation.

The At-and-East Grain Rates Subsidy represents compensation for the difference between the approved published rates and higher compensatory rates under suspension by the Board of Transport Commissioners for Canada on the carriage of bulk grain for export from Great Lakes elevators to St. Lawrence River and Atlantic ports. The subsidy has been in effect since January 1, 1966.

Expenses

Railway operating expenses amounted to \$881.9 million in 1966, an increase of 7.9% over 1965. The 1966 expenses include a total of \$29.1 million for additional wage costs in 1966 compared with 1965. This total is made up of \$26.7 million for wage award increases, \$2.1 million for added pension costs and \$0.3 million for unemployment insurance and U.S. railroad retirement taxes. As illustrated in the chart opposite, railway operating wages, pensions, welfare and other employee benefits now make up 62.8% of railway operating expenses compared with 62.6% in 1965 and with 61% in 1964.

Excluding additional wage and benefit costs, railway operating expenses showed an increase of \$35.4 million or 4.3% over the previous year. This reflects the higher workload represented by increases of 4.9% in gross ton miles of freight and 5.4% in passenger carrying car miles.

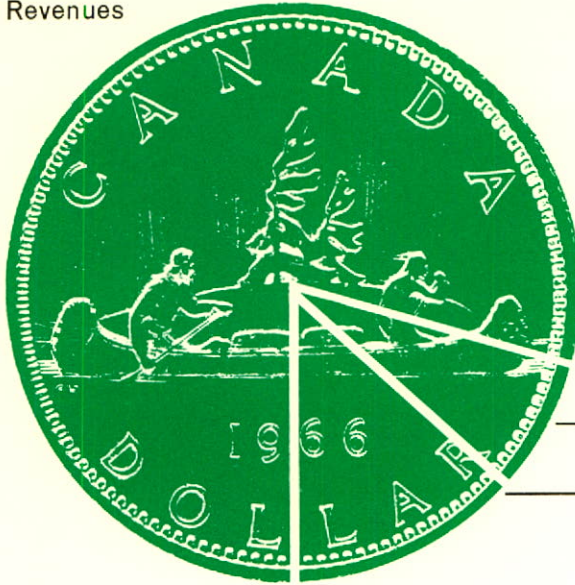
Depreciation

Total System depreciation amounted to \$107.5 million, an increase of \$3.2 million over 1965, due mainly to increased investment in depreciable property. The depreciation rates used are

Railway Operating
Revenues

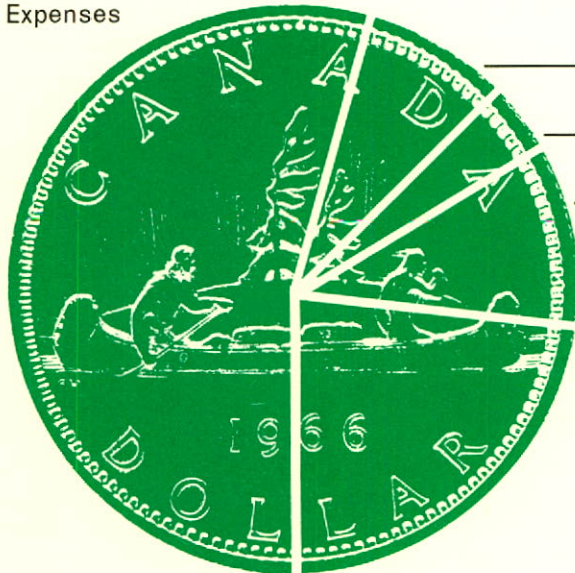
Percent

Year 1966



79.2	Freight services
7.4	Passenger services
13.4	Other
100.0	

Railway Operating
Expenses



54.7	Operating wages
8.1	Pensions, welfare and other employee benefits
3.6	Locomotive fuel
10.5	Depreciation
23.1	Material and other expenses
100.0	

those approved by the Board of Transport Commissioners for Canadian lines and the Interstate Commerce Commission for U.S. lines.

Taxes

In 1966 System taxes, apart from those included in the purchase price of materials, amounted to \$38.3 million, an increase of \$8.3 million. Main factors in the increase were the Company's contributions to the new Canada and Quebec pension plans (\$6.6 million), higher property taxes (\$1.0 million) and U.S. railroad retirement tax (\$0.5 million). Taxes included in the purchase price of materials amounted to \$28.5 million.

Interest on Debt

Net interest on debt amounted to \$64.7 million, an increase of \$2.8 million over 1965. This increase was due to refinancing at a higher cost the \$35 million issue of 3% bonds which matured January 3, 1966 and renewing loans from the Government of Canada at the higher level of interest rates prevailing in the market throughout the year.

The effective rate of interest on the debt outstanding at December 31, 1966 was 4.69% compared with 4.48% at December 31, 1965.

Freight Services

Freight Movement

In 1966 CN moved a record amount of freight to earn the highest freight services revenues in its history. Carload tonnage reached 102.1 million tons, an increase of 3.7% over 1965. Revenues, as previously noted, were up 9.6%.

The nationally important task of moving grain and grain products from the Canadian prairies to lake and ocean ports continues to be a major responsibility of CN. In 1966 the Railway moved 15.2 million tons of grain and grain products. This was an increase of 8.2% over the amount moved in 1965.

There were substantial increases in the amounts of other revenue traffic moved during 1966. Tonnage of potash increased by 27.4% due to higher production in Saskatchewan, pulpwood and chips increased by 20.2%, chemicals by 13.3% and fertilizers by 14.3%.

In the carriage of mine products there were significant decreases in coal, iron ore, copper-nickel ores, salt, sand and crushed stone. These declines, however, were partly offset by a gain of 9.8% in lead-zinc ores and concentrates mainly from Pine Point Mines in the Northwest Territories.

Freight Marketing

Considerable success was achieved through Marketing Planning activities in the more effective integration of service design, pricing, promotion, equipment design and purchases, facility improvements and in orienting all programs to the needs of the customer.

A realignment of responsibilities in the Headquarters Freight Sales organization in 1966 enabled the Company to place greater emphasis on the identification and satisfaction of customer requirements.

Studies to establish longer-term opportunities are playing an increasingly important role in the overall marketing program. A recent study, for example, indicates that an increasing amount of bulk traffic such as grain, potash, sulphur and coal will be moving through Pacific ports. It is anticipated that rising needs for fertilizer in the Orient and Latin America alone will in time require the transportation of twenty times the current volumes. Coking coal will also begin to move to Japan in increasing quantities in the next ten years. Early knowledge of these and other developments in the transportation market will enable CN to meet the challenge.

To meet immediate needs, CN took delivery of 3,991 pieces of freight equipment during the year, many of them designed to handle a specific kind of traffic. Deliveries of specially designed cars included 177 of an order of 800 "yellow door" box cars for newsprint, and 573 of an order of 1,100 cylindrical hopper cars for the movement of such bulk commodities as potash, cement and chemicals. Other new equipment included heated box cars, gondola cars, container flats, bulkhead flats, mechanical refrigerator cars and high cube box cars. CN also modified and rebuilt parts of its existing freight fleet to special customer requirements.

New motive power added to the diesel fleet this year consisted of 20 locomotives of 2,400 h.p. and 10 of 3,000 h.p. The Company also ordered 19 more 2,400 h.p. and 16 of the high-powered 3,000 h.p. locomotives, which can haul twice the tonnage of older diesels.

Significant improvement in utilization of freight cars and diesel engines continued. A computerized information system to assist in freight car distribution was tested on the Atlantic Region and its most promising aspects will be extended to other regions. Benefits anticipated from the new system include an improvement of at least 5% in freight car utilization.

The centralization of motive power control in Montreal progressed during the year and the steps taken were effective in increasing utilization of diesel units and in speeding up both freight and passenger service over a wide area of the System.

As the result of substantial wage increases Canadian railways found it necessary in 1966 to apply a 10% increase in competitive and agreed charge freight rates. The increase became effective on the open tariff competitive rates on October 10, 1966 and, after notice of intent, on agreed charge contracts as of January 1, 1967.

Express Freight

Express Freight, the System's integrated service for non-carload shipments, continued to develop in 1966.

The speed and regularity of the service was improved and orders were placed for 500 aluminum containers and the ancillary equipment to move the containers. All this equipment is specially designed for easy transfer between rail and road transport units.

Application of the Master Agency concept, which provides customers in smaller communities with the advantages of urban type rail service and communications, was extended to 15 additional points during the year. A new Express Freight terminal was constructed at Belleville. Work on the new 40-acre Toronto terminal was begun early in 1966 and is now virtually completed. This large and technically advanced freight handling terminal will be formally opened in June 1967.

Mainly because of strikes in both the trucking and railway industries, the growth of Piggyback Services, which has been substantial in recent years, did not continue in 1966. Tonnage and revenue dropped 5.2% and 6.2% respectively from the previous year.

Trucking Companies

Net operating profit of the separately operated trucking companies, whose stock is owned by Canadian National Transportation, Limited, was \$1.4 million in 1966.

During the year the shares of D. Chapman and Co. Limited, a trucking firm operating throughout the interior of British Columbia, were acquired by Canadian National Transportation, Limited.

Passenger Services

General

The gain in passenger services revenues achieved in 1966 reflects the successful effort of CN to increase its share of a large and growing travel market.

Towards this end careful economic and technical studies have been made to determine in what areas of the System rail passenger service is profitable, or potentially so, and in what areas there is no reasonable prospect of meeting operating costs.

In areas of profit, or potential profit, up-to-date transportation technology and modern merchandising methods are being used to serve and develop the market, with particular attention being paid to the growing demand for fast, frequent, comfortable and reliable transportation between large urban centers.

The objective of the Company is the elimination of the deficit which has pertained to its rail passenger operations, and not the elimination of the rail passenger business. CN's passenger policies are founded on the belief that there continues to be an effective demand for rail passenger facilities in areas of high density population and in other areas where indications are that the travel market will produce a level of revenue which would meet the cost of providing service.

In areas where rail passenger service is clearly uneconomic the Company's objective requires that it be discontinued or, if required to be retained as a public service, given financial support by some appropriate authority.

Specific factors contributing to improved passenger revenues in 1966 were public response to new and improved services, a full year's effect of the termination of the pool agreement with the Canadian Pacific Railway, and some fare adjustments.

The number of passengers using CN train services in 1966 rose by 434,000, a gain of 2.6%. The average passenger travelled 118 miles, an increase of 9% over last year. The total result was an advance in passenger mileage to about 2.0 billion, a 12% increase and the highest amount of traffic handled on passenger trains since 1946.

Earnings for the average passenger mile also increased, rising 3.3% to 3.38¢. This, coupled with a gain of 5% in the passengers handled per train mile, resulted in a rise in revenues per train mile to \$3.20 from last year's \$2.94.

The increase of 15.8% in passenger services revenues compared with the smaller (6.2%) increase in passenger train miles is significant indication that revenues are increasing faster than expenses and that an eventual overall profit position is indeed possible.

Schedules and Services

CN continued to augment its passenger services in 1966, improving schedules and adding new trains and refurbished equipment, when and where this was justified by the demand.

Last fall the now-famous Rapido train between Montreal and Toronto became the trademark for a type of fast, prestige service. Between Montreal and Toronto the afternoon Rapido was supplemented by the morning Rapido offering the same speed and facilities. Morning and afternoon Rapido service was also instituted between Montreal and Quebec City.

Travel by all modes between Toronto and Montreal now exceeds 6,000 persons per day each way and predictions are that this will double in ten years. CN's share of this market has shown a rapid increase and the service is currently profitable.

Preparations proceeded vigorously during 1966 for the advent of the Turbo trains, which will begin operating between Montreal and Toronto during the summer of 1967. Designed along aerodynamic lines the Turbo represents a new concept in railway passenger equipment and has been described as the greatest leap forward in railway technology in the past 100 years.

The original design came from the Corporate Systems Center of United Aircraft Corporation in the United States and the trains will be delivered under a lease-maintenance contract which shares the experimental costs of the project between CN, United Aircraft Corporation and United Aircraft of Canada, and gives CN an option for outright purchase over a period of years. In the course of negotiations leading to this agreement an understanding was reached that the Canadian content of the new equipment will exceed 70%.

Motive power for the Turbos is provided by ST6 gas turbine engines which are an adaptation of the PT6 aircraft engine designed and developed by United Aircraft of Canada and are being produced by UAC at Longueuil, Quebec. The Turbo trains, which have a unique suspension system and wheel assembly permitting high speeds and a smooth ride on existing track, are being built by Montreal Locomotive Works Limited.

The Turbos will provide morning, afternoon and early evening departures and will be operated in addition to existing trains. Running time will be just under four hours.

CN considers that an important travel market exists in Southwestern Ontario between Toronto, London and Windsor, and Toronto, London and Sarnia. This is an area particularly suited to the operation of another new type of passenger equipment which has been ordered for delivery in 1967. The order is for five train sets of five cars each. They will feature coach and club car accommodation and attractive meal service facilities. These trains, while not as dramatic a departure from the conventional as Turbos, will incorporate many new concepts. The trains will make greater operating flexibility possible, will replace certain existing trains in the Southwestern Ontario service and will provide improved schedules and more convenient and comfortable travel.

Intensive study of ways and means of providing better meal service to more and more people, while at the same time minimizing costs, continued in 1966. Some of the results of these studies will become apparent with the advent of Turbos and the introduction of some completely new meal service concepts.

Work on an improved passenger reservation system went forward and the first phase of a modern electronic reservations system will be placed in operation in 1967. The new system will handle coach and club car reservations at the start and will be capable of receiving and

answering 11,000 messages a day from 47 Canadian cities.

The Red, White and Blue pricing system, which has proved highly successful in Canada, was extended to CN's U.S. subsidiary, the Grand Trunk Western, between Detroit and Chicago. This is the first application of this unique rail fare concept in the United States.

Personnel and Labour Relations

Labour Relations

Labour negotiations with four major employee groups reached a critical point in 1966 and a seven-day strike resulted. The strike arose from failure to reach agreement on demands presented by the Canadian Brotherhood of Railway, Transport and General Workers representing 20,485 employees, various non-operating unions negotiating on behalf of 13,098 shop crafts employees, other non-operating unions representing 22,680 employees, and the Brotherhood of Railroad Trainmen representing 8,649 employees.

Negotiations with the four groups began in November, 1965 and continued until April, 1966, at which time the unions applied for conciliation. Four conciliation boards were formed and each of the reports of the boards was eventually found unacceptable by the respective union memberships who then exercised their legal right to strike.

On September 1, at an emergency session, Parliament enacted legislation which brought about a resumption of operations and provided for an 18% wage increase phased over a two-year period and for mediation, or compulsory arbitration should mediation fail. Mr. H. Carl Goldenberg, Q.C., was appointed mediator by the government.

At the date of this report settlement had been made, through the mediation of Mr. Goldenberg, with seven non-operating unions and the BRT, representing about 32,000 employees. An agreement, subject to ratification, had also been signed with the CBRT & GW. Seven other unions, representing about 13,000 shop crafts employees', were proceeding to compulsory arbitration as provided under the legislation.

During negotiations with the CBRT & GW a new collective agreement on work rules was signed

for sleeping, dining and parlor car employees. Other collective agreements were reached during the year with stevedores in Nova Scotia, conductors and brakemen on the Grand Trunk Western, engineers and firemen on the Shawinigan Falls Terminal Railway and labourers and dockyard employees in Newfoundland.

Negotiations on the classification and consist of crews for the Turbos began in 1966 and were formally concluded early in 1967.

Employee Relations

Effective communication with employees was a continuing concern of CN management during 1966. Employee Communications tabloid newspapers, The CN Reporter and Le Trait d'Union, which were launched in 1965 are now reaching all employees. Twenty-four English editions and nine French editions are published in the various regions and areas across the System.

Training programs remained very active during the year with enrollment reaching 48,000 in a variety of courses ranging from apprenticeship through technical training and languages to supervisory development.

In its training and development programs the Company cooperates with provincial and federal government departments so that its programs may be tied in with the Technical and Vocational Training Act. An example of the results of this type of cooperation was the successful graduation, in August, 1966 at North Sydney, of 41 longshoremen who had completed various high-school courses. The kind of employment previously available to these and other men will be sharply reduced during 1967 when rail car ferries will be introduced between North Sydney and Port-aux-Basques. Another 47 men are currently enrolled in a similar program to upgrade basic educational levels and facilitate entry into trade and business schools.

Following a recommendation of the permanent committee on bilingualism, CN's translation bureau was expanded by the addition of a terminology section and was designated "Linguistic Services". The terminology section was formed to develop a comprehensive business and technical railway terminology in the French language adapted to North American conditions. The overall objective of Linguistic Services is to facilitate and encourage the use of French as well as English as a working language for both oral and written communications in CN.

A joint union-management program of inspection of bunkhouse facilities across the System was completed during 1966 and a program for improvements where indicated was begun. The installation of water coolers and sanitary facilities on diesel locomotives continued. The target date for equipping the entire fleet with these conveniences is 1969. An order was placed for 150 new cabooses of modern design and offering greatly improved facilities and working conditions for train crews. A prototype was tested early in January 1967 and the first completed units are expected to go into service in June. The new design is the result of four years of study, experiment and consultation between CN and the union representing the men who will ride the cabooses.

Pensions and Welfare

Total charges against earnings for pensions and retirement benefits in 1966 compared with 1965 are as follows:

	1966 (In Millions)	1965	Increase or (Decrease)
CN Pension Plans:			
1935 and 1959 Plans	\$38.6	\$31.9	\$ 6.7
Pre-1935 Plans, etc. (including I.C. & P.E.I. Railway Employees' Provident Fund)	<u>6.6</u>	<u>6.9</u>	<u>(0.3)</u>
	45.2	38.8	6.4
Government Plans:			
Canada (and Quebec) Pension Plans	6.6	—	6.6
U.S. Railroad Retirement	3.6	3.1	0.5
Total	\$55.4	\$41.9	\$13.5

Exclusive of payments made under the U.S. Railroad Retirement Act, there was paid to pensioners and beneficiaries under the various Canadian National pension arrangements, a total of \$45.3 million in 1966 and 32,134 individuals were receiving such payments at the year end.

Charges against earnings for welfare plans providing hospital-surgical-medical benefits and life insurance were \$7.8 million in 1966 compared with \$7.7 million in 1965.

System Activities

Centennial and Expo 67

CN is playing an active role in Canada's Centennial celebrations with almost every service of the Company involved to some extent and extremely heavy demand anticipated by passenger and hotel services.

Since the spring of 1963 CN has worked closely with the Centennial Commission on the development of the commission's Confederation Train project which is carrying the story of Canada's development, told in scientific and artistic exhibits, to 63 communities from coast to coast. Since February 1964 Company personnel have also worked with the Department of National Defence on the Military Tattoos which have scheduled a cross-country tour by special trains. The Tattoos will visit about 40 cities with a program depicting the development of the Armed Forces in Canada since the 17th century.

The preparation and implementation of these major Centennial projects has called for close collaboration between CN, the government authorities concerned and the Canadian Pacific Railway over whose lines the trains are also moving.

Throughout 1966 passenger, hotel, public relations and advertising personnel have collaborated with government and private companies and individuals in the promotion of many other Centennial projects including the Pan-American Games in Winnipeg.



CN's Pavilion at Expo 67

The Company is also closely involved in the planning for travel, communication and accommodation facilities for Canadians and visitors during Centennial year.

CN's major participation in Expo 67 is a \$1.3 million pavilion designed to illustrate a "Time and Motion" theme. The pavilion will embody some unique architectural features with the "time" story presented through moving exhibits and "motion" by means of a film. The pavilion will show visitors in an educational and entertaining manner how time and motion affect their lives.

Telecommunications

In an era of exciting technological advance and increasing demand for fast and versatile telecommunications facilities, CN continued to expand all its services in this field. The increased business resulted in a net income of \$6.1 million, a gain of \$0.7 million over 1965.

In Toronto the electronic switching system, Data Central, handled an average of 1 million messages per month, compared with a monthly average of 800,000 messages in 1965.

CN's coast-to-coast multi-service network was augmented in 1966 by an increase of 6.7% in telephone channel miles and 16% in telegraph channel miles.

New Telex exchanges opened during 1966 brought the total to 87, serving 1,031 communities and 12,150 subscribers in Canada. This instant "Dial'n'Type" service is connected to the world-wide Telex network which has more than 200,000 subscribers.

A number of important developments took place in the Northwest Territories. Construction of the pole line between Hay River and Inuvik was completed bringing Telex, telephone, broadcast and other services to Inuvik and the communities in the Mackenzie Valley.

The establishment of a telephone network for the Department of Health and Welfare, connecting 16 isolated settlements to either Hay River, Cambridge Bay or Inuvik, permits the direct transmission of medical advice from the doctors in the larger communities.

Telephone and teletype facilities were extended from the Hay River-Lady Franklin Point troposcatter system to Coppermine, where a telephone exchange was built.

Television networks in Southern Ontario, Newfoundland and Quebec, were modified to meet the requirements of colour transmission.

In Newfoundland, construction on a 300-voice channel microwave system between Corner Brook and St. Anthony was well advanced. The continuing expansion of CNT facilities and services in the province included the addition of 35 communities to the telephone network, 4,000 new telephone subscribers, the enlargement of six exchanges, and the completion of 15 new exchanges.

Hotels

CN's hotel activities continued to be an important and profitable part of System activities in 1966. The following is a summary of the financial results compared with those for 1965:

	1966	1965
CN-operated hotels:		
Net income before undernoted charges	\$ 759,106	\$ 632,329
Major repairs and modernization costs	372,623	531,537
Net income	386,483	100,792
Hilton-operated hotels:		
Net (loss) from Hotel Vancouver	(180,214)	(640,664)
Net return from the Queen Elizabeth Hotel (including Place Ville Marie restaurants)	2,135,903	1,614,655
Net return	1,955,689	973,991
Net hotel income	\$2,342,172	\$1,074,783

The 5-year program to modernize CN's year-round hotels approached the final stages in 1966. At the Chateau Laurier, air conditioning of public and private rooms was completed, as was the rehabilitation of the main lobby, the lower lobby and the swimming pool. Conversion of the passenger elevators to automatic operation is expected to be finished early in 1967.

The renovation and modernization projects at the Hotel Newfoundland, the Fort Garry, the Hotel Bessborough and the Hotel Macdonald also approached completion.

The program for improvement of Jasper Park Lodge which has been in progress since 1960, is now virtually completed. The reconstruction of guest accommodation at the Lodge was finished early in the year and some new staff quarters were also built.

A total of \$2.7 million was invested in all these projects in 1966.

The rehabilitation of the Hilton-operated Hotel Vancouver continued and in Place Ville Marie in Montreal a new restaurant was completed and opened early in 1967. There are now nineteen restaurants in the Queen Elizabeth Hotel and PVM complex, all operated for CN by Hilton of Canada Limited.

Transportation and Maintenance

Increasing numbers of passenger and freight trains and the increasing speed of passenger

trains demanded continued improvement in operating techniques, in roadbed and track and in signal systems during 1966.

Work was pressed on improvements to the signalling system on the Montreal-Toronto line. The analysis and solution of the maintenance and upgrading problems presented continues to be greatly aided by modern computer techniques, particularly by a train performance simulation program, developed by CN, which constitutes a major advance in transportation technology.

Among yard and terminal projects under construction during 1966 were the tunnel, bridge and extension of two yards of the Vancouver Terminal Project and yards for automobile plants at Oshawa and Talbotville in Ontario and at Lansing, Kalamazoo and Pontiac in Michigan. A yard at Oakville, Ont., begun in 1965, was completed.

The 24-hour clock system for measuring time was introduced on October 30, 1966. The introduction of this system is in line with modern transportation practice and needs.

Research and Development

The Research and Development Department continued to make significant contributions to CN's progress.

The Department was actively involved in study and research on the ride and stability of freight and passenger equipment. This work is an essential preliminary to the purchase of new equipment and in 1966 had particular application to the new Turbos.

A contribution to railway technology which received wide professional recognition during the year involved freight cars equipped with newly-developed "end-of-car" hydraulic draft gears. Certain technical problems became apparent under operating conditions and cooperative work between CN and suppliers of the gears resulted in improvements that are to the advantage of the Company and the railway industry in general.

The provision of technical assistance to present and potential customers with distribution problems is an important part of R & D activities. Among such activities in 1966 were concentrated investigations into the handling of bulk materials and the integration of material handling systems between rail-car and truck and rail-car and track-side storage facilities.

Industrial Development

In addition to projects connected with major resources developments CN, through its Industrial Location Service, continued to assist industry in determining optimum locations for new manufacturing plants and major distribution facilities being established in Canada.

During 1966 a total of 464 resource developments, manufacturing plants, and major ware-

housing and distributing facilities was established in locations served directly by CN. In addition, 180 industries already served expanded their facilities. Of these new plants and expansions, 403 required direct private siding service. A total of 82 miles of private sidings and industrial spurs was constructed during 1966.

Branch Lines

Construction was started during the year on three branch railways, which will have a total length of about 95 miles. In Ontario, construction began on a branch railway to serve iron ore operations at Bruce Lake some 30 miles south of Red Lake. In the Snow Lake area of northern Manitoba work began on a 12-mile line from Stall Lake north-easterly to a copper-zinc mine at Osborne Lake. In Saskatchewan, a start was made on the construction of a 17-mile branch line from Watrous, northeasterly to the site of a potash plant that is being constructed near Guernsey.

Real Estate

During 1966 the program of developing real estate holdings in cooperation with private enterprise and the appropriate municipal and other authorities continued. In Campbellton, N.B., present plans call for the building of a new station, railway office building and shopping centre by private interests from whom the Company will lease back required space. In Prince Rupert, North Pacific Development Corporation Limited will erect a combination apartment, motel and retail complex on 7½ acres of CN land.

Work continued on the Mid-Town Plaza in Saskatoon. This development, on property vacated by CN when the new station and yard were opened, will, when completed, include a 12-storey office building, two large department stores, several small stores and underground parking for 700 cars.

In Edmonton, the CN Tower, the tallest building on the Canadian prairies, was officially opened on November 4th. This 26-storey building, which was conceived as part of Edmonton's Civic Centre development project, now houses all of the Company's offices and new passenger terminal facilities, plus a number of private firms and government offices.

On the West Coast work has begun on the 500-car garage and office tower situated behind the Hotel Vancouver. These buildings are being built on land leased from the Company and partially on land owned by the developers, Avis Transport of Canada Limited, and Avord Holdings Limited.

Place Bonaventure, a great trade exhibition and retail centre built by private interests on CN property in Montreal, was opened early in 1967. Also opened early this year was a new 26-storey office building which was constructed on CN property in the same general area by Terminal Tower Corporation.

Marine Services

Newfoundland's "Come Home Year" and industrial development on the province's south coast kept Canadian National rail and ferry facilities in Newfoundland operating at a record pace in 1966. Passenger traffic on the ferry service was up 18% over the previous year, vehicular traffic jumped by 30% and freight increased by 3% to set record highs in all three categories.

Another passenger ship, the Leif Eiriksson, was added to the Cabot Strait Ferry Service to double the carrying capabilities provided for eight years by the ferry William Carson.

Heavy freight and passenger traffic was handled in the Newfoundland Coastal Services during 1966 with ten passenger-cargo ships in operation along the coasts of Newfoundland and Labrador with other vessels being chartered as required.

The Northumberland Strait ferry service between Cape Tormentine, N.B., and Borden, P.E.I., had its highest-ever traffic flow during 1966—698,166 passengers and 281,405 vehicles. Four ships operated on a shuttle basis at peak periods to maintain this flow. The M.V. Bluenose had her second highest traffic figure since entering the Yarmouth, N.S., to Bar Harbor, Me., service in 1956—94,490 passengers and 31,954 vehicles. Among these was the millionth passenger to be carried by the ferry since the service began.

On the Pacific Coast the S.S. Prince George continued regular passenger cruises from Vancouver to Skagway, Alaska, and the Aqua-Train between Prince Rupert, B.C. and Whittier, Alaska, maintained a weekly service throughout the year.

Commentary

Demand for transportation, telecommunications and hotel services provided by Canadian National continued at a high rate in 1966 as the national economy made further substantial gains with total real output rising by nearly 6%—a rate of growth close to that of the previous two years.

The effective implementation of customer-oriented policies aimed at developing profitable and potentially profitable markets, together with the buoyant economy, accounted for the increased business transacted by the Company during the year. System revenue ton miles rose to 49.6 billion, representing a 7.6% gain over the previous year.

Total gross revenues fell short of the billion dollar mark by \$1.4 million, while net profit before interest stood at \$40.1 million. An extremely heavy interest burden of \$64.7 million produced a deficit of \$24.6 million. This result, however, represented a continuation of the overall financial improvement, graphically illustrated by the table on Page 3 of this report. The table shows a declining trend in the deficit from a high of \$67.3 million in 1961 to the 1966 result of \$24.6 million. (As indicated in previous reports, the statutes concerning the capital structure are due for review and the Company has made proposals to the Federal Government with respect to a capital revision.)

The results of 1966 operations confirm again that competition in the transportation industry in Canada is stronger and more pervasive. Against this background, wages and material costs have risen sharply during the year, yet the Railway has been unable to obtain a corresponding increase in revenues. Clearly, the nature and strength of the competitive situation does not permit the railway industry to pass on to its users all of the cost increases which it must bear. This problem, therefore, must be met by achieving greater productivity through the more efficient use of manpower, equipment and materials.

The attainment of increased productivity becomes even more important in the years ahead since the industry will be operating under the new National Transportation Act passed by Parliament in February, 1967. This new legislation enunciates a national transportation policy aimed at the development of "an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost." To implement this policy the legislation has been designed to allow the railways greater freedom in meeting the challenges of today's highly competitive economy and at the same time to make provision for eventual elimination of unreasonable cost burdens which have been borne by the industry for many years.

This marks the first time in Canada that such a policy statement has been made in transport legislation. Canadian National considers it important and helpful to have such a policy enunciated and welcomes the opportunities and challenges it presents. The Company has been adjusting itself to present competitive conditions by applying modern transportation technology and progressive marketing techniques to all its services. Long-range corporate planning forms an important part of Management policy and increasing emphasis will be laid during 1967, and in the future, on clear definition of the long-term objectives and responsibilities of the Company together with appropriate methods of reaching such objectives and discharging such responsibilities.

In this Centennial Year, it is appropriate to refer to the part Canadian National and its predecessor companies have played in the formation and development of Canada. Some of the constituent companies predate Confederation by three decades and, in the evolving history of Canadian nationhood, railways have been inextricably intermingled with the life, times and commerce of the country. Canadian National continues dynamically in this role and the Directors and Management, in the administration of this great national enterprise, look to the future with confidence.

Staff

Since the previous report, the following executive officers have retired after devoting many years of outstanding service:

Mr. Donald Gordon, Chairman and President, 17 years of service; Mr. S. F. Dingle, System Vice-President, 47 years; Mr. H. C. Friel, Vice-President—Law, 24 years; Mr. H. A. Sanders, Vice-President and General Manager, Grand Trunk Western Railroad, 47 years; Mr. J. C. Kenkel, European General Manager, 50 years; Mr. J. C. A. Bérubé, General Manager, St. Lawrence Region, 50 years; Mr. D. M. Trotter, Assistant Vice-President, Transportation and Maintenance, 41 years; Mr. H. B. Parr, General Freight Sales Manager, 48 years; Mr. W. E. McCall, General Manager, Passenger Sales and Services, 46 years.

Mr. Donald Gordon, in retiring from the Company at the end of December, 1966, brought to a close a unique, colourful and productive railroad career. His term of 17 years as Chairman and President was the longest in the history of Canadian National. At the regular meeting of the Board of Directors of the Company on December 14, 1966, a resolution was unanimously passed extending to Mr. Gordon the sincere gratitude of the Company for the outstanding service rendered by him to Canadian National Railways and to Canada. The resolution traced Mr. Gordon's career and the growth and development of the railway during his tenure of office, and said in part: "He also leaves, in the hearts and minds of those who have had the privilege of working with him, the indelible impression that the Company has had at its head a man whose name already is a part of the history of our country, a man who has become a

legend in his own lifetime. The Prime Minister of Canada, in a recent tribute, said, 'Mr. Gordon is one to whom the appellation a *great Canadian* really applies.' It is, therefore, the wish and pleasure of the Directors to join with other Canadians in offering tribute to this man who has already accomplished so much and to wish him long years of health and happiness and of more accomplishment in the future."

Two Directors of the Company, Mr. J.-Louis Lévesque, Montreal, and Mr. R. A. Brown, Jr., Calgary, retired at the year-end, and the Board and Management extend their gratitude to them for the valuable service rendered the Company. Welcomed to the Board were two new members, Mr. H. C. Pinder of Saskatoon and Mr. Georges-Émile Lapalme of Montreal.

The Board of Directors again wishes to express its appreciation to all officers and employees for their contribution to the achievements of the Company in 1966.



Signed on behalf of the Board of Directors

Montreal, March 15, 1967.

Executive and General Officers

N. J. MacMillan, Q.C., President
W. C. Bowra, System Vice-President
R. T. Vaughan, Vice-President and Secretary of the Company
Dr. R. A. Bandeen, Director of Corporate Planning
W. Toulmin, Executive Assistant
C. A. Harris, Director of Public Relations
P. Vaughan, M.D., Chief Medical Officer
E. A. Spearing, M.B.E., Director of Investigation

Accounting and Finance

J. L. Toole, Vice-President
W. R. Corner, Comptroller
E. J. Denyar, Treasurer

Highway Services

F. A. Gaffney, Vice-President
D. W. Blair, M.B.E., Assistant Vice-President

Law

Lionel Côté, Q.C., Vice-President
J. W. G. Macdougall, Q.C., General Counsel

Personnel and Labour Relations

W. T. Wilson, Vice-President
E. K. House, Assistant Vice-President, Labour Relations
George Lach, Assistant Vice-President, Personnel

Purchases and Stores

E. T. Hurley, Vice-President
W. L. Shirray, General Purchasing Agent

Research and Development

Maurice Archer, Vice-President
D. F. Purves, Assistant Vice-President
J. P. Blanchet, General Manager of Real Estate

Freight Sales

A. H. Hart, Vice-President
G. R. Johnston, Assistant Vice-President

Passenger Sales and Services

J. H. Richer, Vice-President

Hotels and Telecommunications

R. H. Tarr, Vice-President
S. S. Chambers, General Manager—Hotels
H. J. Clarke, General Manager—Telecommunications—Toronto
M. L. Prentice, Assistant General Manager—Telecommunications—Toronto

Transportation and Maintenance

J. H. Spicer, Assistant Vice-President

Atlantic Region

E. J. Cooke, Vice-President, Moncton
C. T. Cameron, General Manager
G. D. McMillan, Manager, Newfoundland Area, St. John's
J. G. Davis, Manager, Maritime Area, Moncton
G. R. Boulet, Manager, Chaleur Area, Campbellton

St. Lawrence Region

J. A. McDonald, Vice-President, Montreal
J. F. Roberts, Area Manager, Special Duties
L. M. Poitevin, Manager, Quebec Area, Quebec City
W. H. Cyr, Manager, Montreal Area, Montreal
A. Olynyk, Manager, Champlain Area, Montreal
H. J. Fast, Manager, Rideau Area, Belleville

Great Lakes Region

D. V. Gonder, Vice-President, Toronto
K. E. Hunt, General Manager
A. R. Williams, Manager, Toronto Area, Toronto
C. F. Armstrong, Manager, Southwestern Ontario Area, London
W. R. Mitchell, Manager, Northern Ontario Area, Capreol

Prairie Region

E. P. Stephenson, Vice-President, Winnipeg
A. Skinner, General Manager
S. E. Spencer, Manager, Lakehead Area, Port Arthur
L. H. B. Gooding, Manager, Assiniboine Area, Winnipeg
L. M. Thomson, Manager, Hudson Bay Area, Dauphin
A. E. Street, Manager, Saskatchewan Area, Saskatoon

Mountain Region

G. R. Graham, Vice-President, Edmonton
W. D. Piggott, General Manager
G. H. Bloomfield, Manager, Edmonton Area, Edmonton
J. O. Pitts, Manager, Calgary Area, Calgary
J. A. Pollock, Manager, British Columbia Area, Vancouver

Grand Trunk Western Railroad

J. W. Demcoe, Vice-President and General Manager, Detroit

European Organization

E. H. R. Eastwood, General Manager, London, England

Companies Included in the Canadian National System

Canadian National Railway Company
Canadian National Express Company
Canadian National Railways (France)
Canadian National Realities, Limited
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company
Canadian National Transportation, Limited
The Canadian National Railways Securities Trust
The Canadian Northern Quebec Railway Company
D. Chapman and Co. Limited
Eastern Transport Limited
East-West Transport Ltd.
Empire Freightways Limited
The Great North Western Telegraph Company of Canada
Hoar Transport Company Limited
Husband Transport Limited
Midland Superior Express Limited
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Mount Royal Tunnel and Terminal Company, Limited
The Northern Consolidated Holding Company Limited
The Quebec and Lake St. John Railway Company
Scobie's Transport Limited
The Toronto-Peterborough Transport Company, Limited
Central Vermont Railway, Inc.
Central Vermont Transportation Company
Duluth, Rainy Lake & Winnipeg Railway Company
Duluth, Winnipeg and Pacific Railroad Company
Duluth, Winnipeg and Pacific Railway Company
Grand Trunk-Milwaukee Car Ferry Company
Grand Trunk Western Railroad Company

- In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the System.

Financial and Statistical Statements

28	Consolidated Balance Sheet
30	Notes to Consolidated Financial Statements
31	Consolidated Income Statement
32	Property Investment Statement
32	Recorded Depreciation Statement
33	Long Term Debt and Shareholders' Equity
34	Investments in Jointly Operated Rail and Terminal Facilities
34	Source and Application of Funds
35	Inventory of Railway Equipment
35	Operated Mileage
36	Pension Trust Funds—Statement of Assets
37	Pension Trust Funds—Statement of Reserve
38	Statistics of Rail-Line Operations
40	A 25-Year Synoptical History of the CN

Consolidated Balance Sheet at December 31, 1966

Assets

Current Assets	Cash	\$ 53,539,728	
	Accounts receivable	107,892,997	
	Material and supplies	76,835,257	
	Other current assets	34,007,884	
	Government of Canada—Due on deficit account	8,593,217	\$ 280,869,083
			16,326,528
Insurance Fund			
Investments in Affiliated Companies not Consolidated	Air Canada	240,819,500	
	Jointly operated rail and terminal facilities	47,885,450	288,704,950
Property Investment	Road	2,651,467,657	
	Equipment	1,464,560,536	
	Other physical properties	143,940,532	
		4,259,968,725	
	Less recorded depreciation	1,016,161,115	3,243,807,610
Other Assets and Deferred Charges	Other investments	4,689,126	
	Prepayments	2,123,816	
	Unamortized discount on long term debt	14,580,334	
	Other assets	7,685,786	
	Deferred charges	11,373,097	40,452,159
			\$3,870,160,330

Auditors' Report

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1966 and the consolidated income statement for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1966 and of the results of its operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the System, and in accordance with generally accepted accounting principles. These accounting principles have been applied on a basis consistent with that of the preceding year, except for a change, which we approve, in providing for vacation pay as described in Note 4.

We further report that, in our opinion, proper books of account have been kept by the System and the transactions that have come under our notice have been within the powers of the System.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

February 24, 1967

Consolidated Balance Sheet at December 31, 1966

Liabilities

Current Liabilities	Accounts payable	\$ 106,981,158	
	Accrued charges	50,344,308	
	Other current liabilities	9,799,135	\$ 167,124,601
<hr/>			
Provision for Insurance			16,326,528
<hr/>			
Other Liabilities and Deferred Credits			38,097,315
<hr/>			
Long Term Debt	Bonds	1,327,485,264	
	Government of Canada loans and debentures	445,354,762	1,772,840,026

Shareholders' Equity

Government of Canada	6,000,000 shares of no par value capital stock of Canadian National Railway Company	359,963,017	
	1,070,008,366 shares of 4% preferred stock of Canadian National Railway Company	1,070,008,366	
	Capital investment of Government of Canada in the Canadian Government Railways	441,455,292	
<hr/>			
		1,871,426,675	
Capital Stock of Subsidiary Companies Owned by Public		4,345,185	1,875,771,860
<hr/>			
			\$3,870,160,330

The notes on page 30 are an integral part of this Balance Sheet.

W. R. Corner,
Comptroller.

Notes to Consolidated Financial Statements at December 31, 1966

Note 1: Property Investment

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced. Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1966. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other property except land have been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2: Material and Supplies

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four percent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada. An increase of \$28,043,377 in the outstanding preferred stock was recorded for the year. Of this amount \$16,690,973 was received from the Government of Canada in 1966 and the balance of \$11,352,404 was received from the Government following the enactment on February 9, 1967 of the Canadian National Railways Financing and Guarantee Act, 1965-1966 and was carried at the year end as other current assets.

Note 4: Other Income

(a) In addition to subsidies for Freight Rates Reduction and Interim Payments a further payment of \$39,289,259 was received from the Federal Government for the maintenance of the rates of freight traffic at reduced levels and in recognition of wage awards granted in 1964. Of this amount \$17,465,855 was applicable to 1966 and has been included in railway operating revenues. The balance of \$21,823,404 related to 1964 and 1965 and has been included in other income.
(b) The Company has recorded the estimated liability due to employees for vacations earned in 1966 by a charge to other income of \$28,694,000, with the liability being included in accrued charges.

Note 5: Major Commitments

(a) Pension Funds:
The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$635,000,000 for the unfunded liability in respect of past service of employees.
(b) Chicago & Western Indiana Railroad Company:
The Grand Trunk Western Railroad Company is liable jointly and severally with four other proprietors as guarantor of principal and interest with respect to \$9,535,000 First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company. In addition, the proprietors are obligated to make semi-annual sinking fund payments sufficient to retire the bonds at maturity and to meet interest as it falls due; in the absence of default of any of the other proprietors, Grand Trunk Western's proportion of such semi-annual payments is one-fifth.
(c) The Belt Railway Company of Chicago:
The Grand Trunk Western Railroad Company is liable jointly and severally with eleven other proprietors as guarantor of principal, interest and sinking fund payments with respect to \$33,525,000 First Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds series "A", due August 15, 1987 of the Belt Railway Company of Chicago. Each proprietor is to make payments to the extent required in proportion to its usage of the Belt's facilities in the preceding three years. For the three years ended December 31, 1966 Grand Trunk Western Railroad's usage was approximately 2.3% of the total.
(d) Detroit & Toledo Shore Line Railroad Company:
The Grand Trunk Western Railroad Company is jointly and severally liable with one other proprietor as guarantor of principal, interest and sinking fund payments with respect to \$2,508,000 First Mortgage 3 $\frac{1}{4}$ % 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

Consolidated Income Statement

		1966	1965
Railway Operating Revenues	Freight services	\$717,243,907	\$654,324,287
	Passenger services	67,481,256	58,340,349
	Mail	12,259,314	11,557,396
	Express	48,964,262	47,618,403
	Other	30,997,580	26,698,639
	Interim payments—Royal Commission on Transportation	29,196,152	28,752,278
Total Railway Operating Revenues		906,142,471	827,291,352
Railway Operating Expenses	Road maintenance	154,512,652	150,984,071
	Equipment maintenance	179,119,527	168,666,117
	Transportation	380,751,513	357,040,732
	Sales	22,257,815	20,049,914
	Miscellaneous	13,901,016	12,349,008
	General	79,753,868	71,250,292
	Railway tax accruals	33,240,555	25,811,044
	Equipment and joint facility rents	18,337,181	11,230,634
Total Railway Operating Expenses		881,874,127	817,381,812
Net Railway Operating Income		24,268,344	9,909,540
Other Income	Net income from:		
	Telecommunications department	6,062,728	5,388,829
	Hotels	2,342,172	1,074,783
	Separately operated trucking companies	1,378,350	1,528,581
	Other sources	6,057,553	10,642,889
Total Other Income		15,840,803	18,635,082
Net Income before Interest on Debt		40,109,147	28,544,622
Interest Charges	Total interest on debt	76,281,945	73,257,418
	Less interest received on loans to Air Canada	11,579,581	11,297,912
Net Interest on Debt		64,702,364	61,959,506
Deficit		\$ 24,593,217	\$ 33,414,884

Property Investment Statement

Property Investment at December 31, 1965		\$4,137,136,714
Capital Expenditures in 1966		
New lines and diversions	\$ 169,706	
Roadway improvements	23,430,146	
Large terminals	11,139,132	
Yard tracks and sidings	5,825,076	
Buildings	9,125,429	
Highway crossing protection	355,178	
Signals	2,799,643	
Roadway and shop machinery	2,275,406	
Other facilities	2,384,571	
Total—Road property	57,504,287	
Branch lines	7,485,783	
Equipment	85,762,542	
Telecommunications	18,801,694	
Hotels	6,054,553	\$175,608,859
Government of Canada net expenditure on Canadian Government Railways	174,000	
Properties of company acquired	1,499,996	
Additions to property in 1966	177,282,855	
Deduction in respect of property retirements in 1966	54,450,844	122,832,011
Property Investment at December 31, 1966		<u>\$4,259,968,725</u>

Recorded Depreciation Statement

Recorded Depreciation at December 31, 1965		\$ 939,002,107
Add provision for depreciation for the year		
Road property	\$55,104,932	
Equipment	47,584,512	
Other physical properties	4,847,741	\$107,537,185
Recorded depreciation of company acquired	1,070,273	
	108,607,458	
Deduct net charges in respect of property retirements	31,448,450	77,159,008
Recorded Depreciation at December 31, 1966		<u>\$ 1,016,161,115</u>

Long Term Debt

	Rate %	Maturity (See Notes)		Currency in which payable	Outstanding at Dec. 31, 1965	Transactions Year 1966 Increase or (Decrease)	Outstanding at Dec. 31, 1966
Bonds	3	Jan. 3, 1966	Canadian National 17 Year Bonds	Canadian	\$ 35,000,000	\$(35,000,000)	—
	2¾	Jan. 2, 1967 a	Canadian National 20 Year Bonds	Canadian	50,000,000		\$ 50,000,000
	4½	Apr. 1, 1967 e	Canadian National 6½ Year Bonds	Canadian	72,300,000		72,300,000
	5	May 15, 1968 e	Canadian National 9 Year Bonds	Canadian	55,800,000		55,800,000
	2⅞	Sept. 15, 1969 b	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
	2⅞	Jan. 16, 1971 b	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
	5½	Dec. 15, 1971 e	Canadian National 12 Year Bonds	Canadian	190,561,500		190,561,500
	3¾	Feb. 1, 1974 c	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
	2¾	June 15, 1975 d	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
	5	May 15, 1977 e	Canadian National 18 Year Bonds	Canadian	84,150,000	(225,000)	83,925,000
	4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
	5¾	Jan. 1, 1985 e	Canadian National 25 Year Bonds	Canadian	99,500,000	(1,000,000)	98,500,000
	5	Oct. 1, 1987 e	Canadian National 27 Year Bonds	Canadian	162,750,000	(4,375,000)	158,375,000
	5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds	Sterling	795,366		795,366
	5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds	Sterling	1,228,398		1,228,398
			Total Bonds		1,368,085,264	(40,600,000)	1,327,485,264
Government of Canada Loans and Debentures			Capital Revision Act: Jan. 1, 1972 Debenture	Canadian	100,000,000		100,000,000
			Canadian Government Railways: Advances for Working Capital	Canadian	16,983,762		16,983,762
			Financing and Guarantee Acts: Loans	Canadian	55,371,000		55,371,000
			Refunding Act, 1955: Loans for Debt Redemption	Canadian	238,000,000	35,000,000	273,000,000
			Total Government of Canada Loans and Debentures		410,354,762	35,000,000	445,354,762
			Total Long Term Debt		\$1,778,440,026	\$(5,600,000)	\$1,772,840,026

Notes:	a Refinanced Jan. 2, 1967 under Refunding Act, 1955	c Callable at par on or after Feb. 1, 1972	e Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue
	b Callable at par	d Callable to June 14, 1970 at 100½%; thereafter at par	

Shareholders' Equity

Government of Canada	No par value capital stock of Canadian National Railway Company	\$ 359,963,017		\$ 359,963,017
	4% Preferred stock of Canadian National Railway Company	1,041,964,989	\$ 28,043,377	1,070,008,366
	Capital investment in Canadian Government Railways	441,281,292	174,000	441,455,292
	Total Government of Canada	1,843,209,298	28,217,377	1,871,426,675
Capital Stock of Subsidiary Companies Owned by Public		4,345,185		4,345,185
	Total Shareholders' Equity	\$1,847,554,483	\$ 28,217,377	\$1,875,771,860

Investments in Jointly Operated Rail and Terminal Facilities

		Percentage Held	Investment at Dec. 31, 1965	Transactions Year 1966 Increase or (Decrease)	Investment at Dec. 31, 1966
The Belt Railway Company of Chicago	Capital Stock	8.33	\$ 240,000		\$ 240,000
	Advances		47,680		47,680
Chicago & Western Indiana Railroad Company	Capital Stock	20	1,000,000		1,000,000
	Advances		7,058,394	\$ 24,083	7,082,477
The Detroit & Toledo Shore Line Railroad Company	Capital Stock	50	1,500,000		1,500,000
Detroit Terminal Railroad Company	Capital Stock	50	1,000,000		1,000,000
Northern Alberta Railways Company	Capital Stock	50	8,640,000		8,640,000
	Bonds	50	16,700,000		16,700,000
The Public Markets, Limited	Capital Stock	50	575,000		575,000
Railway Express Agency, Inc.	Capital Stock	0.6	600		600
	Advances		173,493		173,493
The Shawinigan Falls Terminal Railway Company	Capital Stock	50	62,500		62,500
The Toronto Terminals Railway Company	Capital Stock	50	250,000		250,000
	Bonds	50	10,625,000	(211,300)	10,413,700
	Advances		200,000		200,000
Total			\$48,072,667	\$ (187,217)	\$47,885,450

Source and Application of Funds for the Year 1966

	Working Capital January 1, 1966	\$134,756,050
Source of Funds	Provision for depreciation	\$107,537,185
	Issue of 4% preferred stock	28,043,377
	Government of Canada in respect of deficit for the year	24,593,217
	Retained proceeds from properties retired	23,002,394
	Other (net)	1,614,335
		\$184,790,508
Application of Funds	Additions to property investment	\$175,608,859
	Deficit for the year	24,593,217
	Decrease in long term debt	5,600,000
		\$205,802,076
	Net Decrease in Working Capital	21,011,568
	Working Capital December 31, 1966	\$113,744,482

Inventory of Railway Equipment

		On Hand Dec. 31, 1966
Motive Power Equipment	Diesel electric units	2,069
	Electric locomotives	18
	Steam generator units	106
	Booster units	15
	Total	2,208
Freight Equipment	Box, flat and stock cars	72,640
	Refrigerator cars	5,031
	Gondola and hopper cars	25,063
	Caboose and other cars	2,646
	Total	105,380
Passenger Equipment	Coach cars	616
	Sleeping, dining, parlour and tourist	626
	Baggage, mail and express	1,159
	Other cars in passenger service	137
	Total	2,538
Work Equipment	Units in work service	8,472
Floating Equipment	Car ferries	6
	Steamers	11
	Barges, tugs and work	11
	Total	28

Operated Mileage at December 31, 1966

		Owned	Leased	Trackage Rights	Total
Operated Road Mileage— first main track	Atlantic Region	3,771	1	81	3,853
	St. Lawrence Region (including New England Lines)	3,746	7	17	3,770
	Great Lakes Region	3,316		16	3,332
	Prairie Region (including Duluth, Winnipeg and Pacific)	8,060		5	8,065
	Mountain Region	4,065	35	76	4,176
	Grand Trunk Western Lines	879	10	58	947
	Central Vermont Lines	308		59	367
	Total	24,145	53	312	24,510
	Lines in Canada	22,552	36	192	22,780
	Lines in United States	1,593	17	120	1,730
Operated Mileage—all tracks	First main track	24,145	53	312	24,510
	All other main lines	1,177		82	1,259
	Spurs, sidings and yard tracks	7,268	9	1,757	9,034
	Total All Tracks	32,590	62	2,151	34,803

Pension Trust Funds - Statement of Assets

	December 31	
	1966	1965
Investments		
Bonds—at amortized value (market value 1966—\$286,039,000 1965—\$294,845,000)	\$ 324,425,591	\$ 321,677,551
Mortgages—at amortized value	177,428,292	154,610,953
Stocks—at cost (market value 1966—\$113,148,000 1965—\$108,953,000)	106,674,151	89,094,794
Deposits with Trust Companies pending investment in stocks	6,580,912	3,357,721
	615,108,946	568,741,019
Cash in banks	3,758,637	380,898
Account receivable—Canadian National Railways	2,527,945	1,209,879
Accrued interest and other assets	5,423,130	5,555,213
	626,818,658	575,887,009
Canadian National Railways		
Acknowledgement for the unfunded liability in respect of past service of employees	635,000,000	444,000,000
Total Assets	\$1,261,818,658	\$1,019,887,009

Auditors' Report

To the Trustee,
Canadian National Railways Pension Funds.

We have examined the accompanying statement of assets of the Pension Trust Funds of Canadian National Railways at December 31, 1966 and the statement of reserve for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements are properly drawn up so as to give a true and fair view of the state of the affairs of the Trust Funds at December 31, 1966 and the results of their operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the Trust Funds and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the Trustee and the transactions that have come under our notice have been within the powers of the Trustee.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

February 24, 1967

Pension Trust Funds - Statement of Reserve

	December 31	
	1966	1965
Reserve at beginning of Year	\$1,019,887,009	\$ 975,627,361
Additions during Year		
Increase in the unfunded liability in respect of past service of employees	191,000,000	
Contributions by employees on account of:		
Current service	23,256,253	21,601,877
Prior years' deficiencies	3,251,324	3,803,010
Contributions by the Company	38,642,110	31,936,465
Net earnings on investments	28,763,156	25,932,593
	284,912,843	83,273,945
Deductions during Year		
Pensions paid	37,595,615	34,575,142
Refunds on termination of service	5,385,579	4,439,155
	42,981,194	39,014,297
Reserve at end of Year	\$1,261,818,658	\$1,019,887,009

W. R. Corner,
Comptroller.

Actuarial Certificate

This is to certify that the Reserve for Pensions shown in the Statement of Reserve of the Pension Trust Funds of Canadian National Railways, amounting to \$1,261,818,658 as at December 31, 1966, in my opinion, represented adequate provision for the accumulated liabilities of pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1935 and 1959 Plans, excluding pensions granted under prior Plans.

C. J. Woods,
Fellow of the Canadian
Institute of Actuaries.

William M. Mercer Limited,
Montreal, February 23, 1967

Statistics of Rail-Line Operations

		1966	1965	% Increase or (Decrease)
Train Miles	Freight service	38,903,151	38,978,560	(0.2)
	Passenger service	21,071,676	19,842,789	6.2
	Work service	1,476,441	1,388,032	6.4
	Total Train Miles	61,451,268	60,209,381	2.1
Locomotive Miles	Freight service	39,255,523	39,317,955	(0.2)
	Passenger service	18,477,293	17,720,590	4.3
	Switching service—Road and yard	19,141,739	18,992,347	0.8
	Work service	1,706,483	1,655,831	3.1
Total Locomotive Miles	78,581,038	77,686,723	1.2	
Car Miles	Freight:			
	Loaded	1,337,246,447	1,287,931,072	3.8
	Empty	841,349,486	819,787,190	2.6
	Caboose	41,210,198	40,831,886	0.9
		2,219,806,131	2,148,550,148	3.3
	Passenger:			
	Coach and combination	52,286,532	52,200,423	0.2
	Sleeping, parlour and observation	62,251,749	57,385,661	8.5
	Dining	16,281,653	15,004,060	8.5
	Motor unit	5,520,942	4,175,168	32.2
Other (baggage and express, etc.)	79,561,519	85,118,229	(6.5)	
	215,902,395	213,883,541	0.9	
Work Service	2,154,537	2,786,107	(22.7)	
Total Car Miles	2,437,863,063	2,365,219,796	3.1	
Ton Miles	Gross ton miles—all services (excluding passenger cars on passenger trains)	106,053,382,000	101,051,792,000	4.9
	Net ton miles—all services	50,625,591,000	46,629,091,000	8.6
Average Miles of Road Operated		24,542.74	24,612.60	(0.3)
Freight Traffic	Freight revenue	\$ 682,985,825	638,780,344	6.9
	Tons carried—Revenue freight	102,584,458	99,204,609	3.4
	Ton miles—Revenue freight	49,642,587,020	46,130,503,687	7.6
	Train hours in freight road service	1,699,976	1,687,685	0.7
	Averages per Mile of Road:			
	Freight revenue	\$ 27,828	25,953	7.2
	Train miles	1,585	1,584	0.1
	Total freight train car miles	90,447	87,295	3.6
	Ton miles—Revenue freight	2,022,699	1,874,264	7.9
	Ton miles—All freight	2,062,752	1,894,521	8.9
	Averages per Loaded Car Mile:			
	Freight revenue	¢ 51.1	49.6	3.0
	Ton miles—All freight	37.9	36.2	4.7

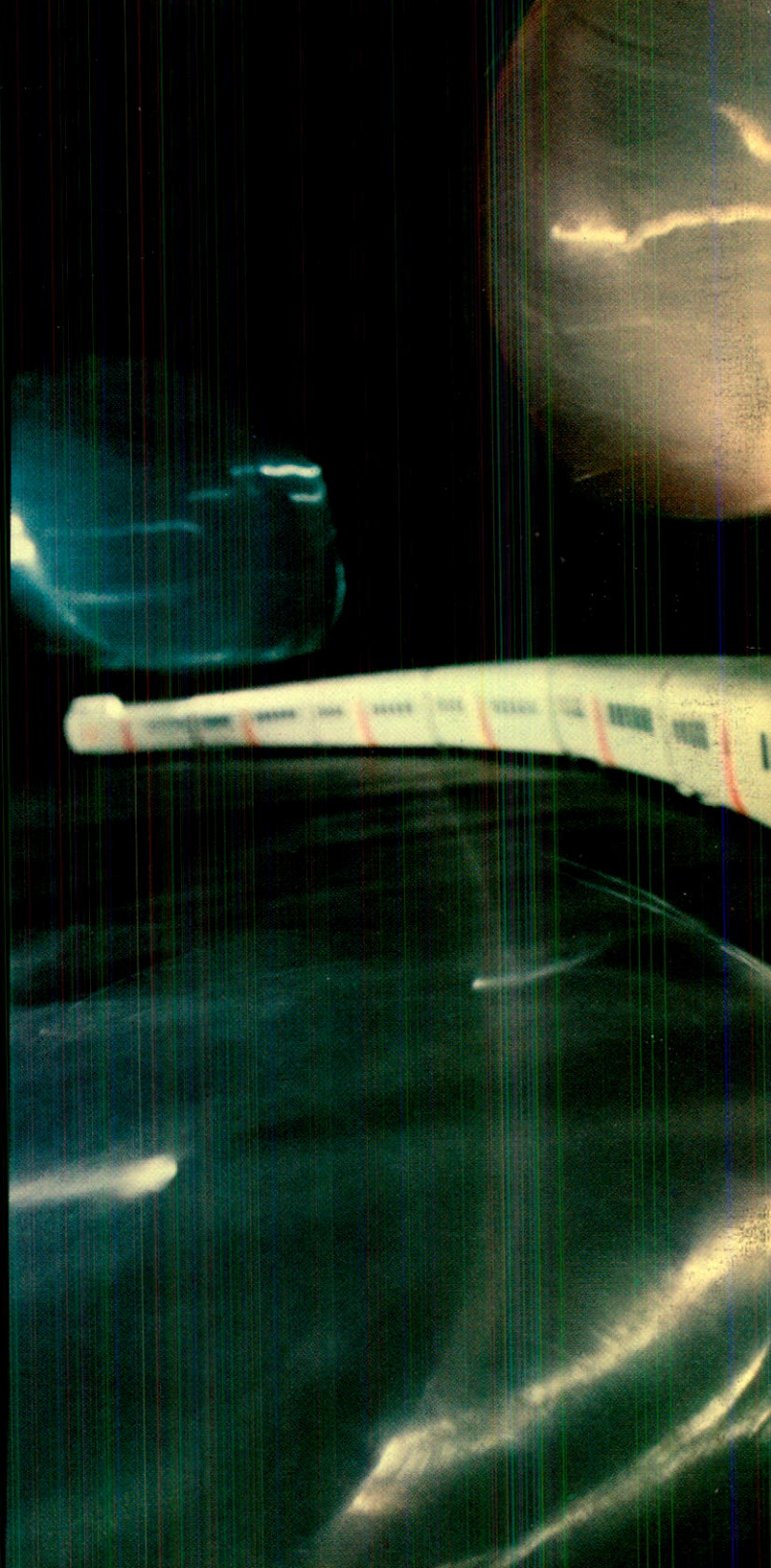
Statistics of Rail-Line Operations (continued)

		1966	1965	% Increase or (Decrease)	
Freight Traffic (continued)	Miscellaneous Averages:				
	Revenue per ton	\$ 6.66	6.44	3.4	
	Revenue per ton mile	¢ 1.376	1.385	(0.6)	
	Miles hauled per revenue ton	483.9	465.0	4.1	
	Cars per train—loaded	33.6	32.8	2.4	
	Cars per train—empty	21.6	21.0	2.9	
	Gross load—Freight trains (tons)	2,695	2,582	4.4	
	Net load—Freight trains (tons)	1,279	1,194	7.1	
	Gross ton miles per freight train hour	61,683	59,638	3.4	
	Train speed—Miles per hour	22.9	23.1	(0.9)	
Diesel unit miles per serviceable day (excluding stored)	261	254	2.8		
Passenger Traffic	Passenger services revenue	\$ 67,481,256	58,340,349	15.7	
	Revenue passengers carried	16,843,639	16,409,281*	2.6	
	Revenue passenger miles	1,995,014,453	1,781,819,703*	12.0	
	Averages per Mile of Road:				
	Passenger services revenue	\$ 2,750	2,370	16.0	
	Train miles	859	806	6.6	
	Total passenger train car miles	8,797	8,690	1.2	
	Revenue passenger miles	81,287	72,395*	12.3	
	Averages per Car Mile—Passenger Services:				
	Passenger services revenue	¢ 50.3	45.8	9.8	
	Revenue passenger miles	14.9	14.0*	6.4	
	Miscellaneous Averages—Passenger Services:				
	Revenue per passenger	\$ 4.01	3.56*	12.6	
	Revenue per passenger mile	¢ 3.382	3.274*	3.3	
	Average passenger journey (miles)	118.4	108.6*	9.0	
	Percent on time arrival—selected principal trains	68.9	76.1	(9.5)	
	Diesel unit miles per serviceable day (excluding stored)	479	445	7.6	
Operating Results	Total operating revenues per mile of road	\$ 36,921	33,613*	9.8	
	Total operating expenses per mile of road	\$ 35,932	33,210*	8.2	
	Net railway operating income per mile of road	\$ 989	403*		
*Restated					
Revenue Tonnage Carried (by classes of commodities)			Increase or (Decrease)		
			1966	1965	
					Tons
					%
	Agricultural products	17,335,897	16,134,162	1,201,735	7.4
	Animals and animal products	743,257	711,260	31,997	4.5
	Mine products	33,823,111	34,344,795	(521,684)	(1.5)
	Forest products	12,069,777	10,877,267	1,192,510	11.0
	Manufactures and miscellaneous	38,087,248	36,343,216	1,744,032	4.8
	Total carload freight	102,059,290	98,410,700	3,648,590	3.7
All less than carload freight	525,168	793,909	(268,741)	(33.9)	
Grand Total	102,584,458	99,204,609	3,379,849	3.4	

A 25-Year Synoptical History of the Canadian National Railways

Year	Gross Revenues	Railway Operating Revenues	Railway Operating Expenses	Net Railway Operating Profit or (Loss)	Other Income	Surplus or (Deficit) before Interest Charges	Interest on Debt	Surplus or (Deficit)	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Passenger Services Revenue per Passenger Mile	Average Number of Employees
	Millions	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	¢	Millions	¢	
1942	\$380.6	\$369,745	\$295,306	\$74,439	\$ 2,294	\$76,733	\$51,670	\$25,063	31,729	.909	2,708	2.029	100,651
1943	446.0	433,527	353,158	80,369	7,460	87,829	52,190	35,639	36,327	.894	3,619	2.118	106,893
1944	446.8	434,149	366,680	67,469	6,032	73,501	50,474	23,027	36,016	.893	3,697	2.165	108,278
1945	439.7	426,233	358,972	67,261	6,505	73,766	49,010	24,756	34,600	.915	3,338	2.266	110,591
1946	407.6	393,246	361,634	31,612	6,111	37,723	46,685	(8,962)	30,812	.975	2,289	2.531	109,809
1947	446.0	430,512	406,335	24,177	5,864	30,041	45,926	(15,885)	32,945	1.040	1,845	2.693	112,801
1948	499.7	483,396	471,589	11,807	1,002	12,809	46,342	(33,533)	32,943	1.195	1,755	2.773	115,395
1949	509.4	491,478	484,728	6,750	(161)	6,589	48,632	(42,043)	30,922	1.276	1,621	3.167	116,057
1950	562.6	543,275	502,252	41,023	3,138	44,161	47,422	(3,261)	31,988	1.394	1,408	3.356	116,347
1951	634.1	612,802	585,615	27,187	5,958	33,145	48,177	(15,032)	36,435	1.369	1,611	3.489	124,608
1952	684.5	661,349	640,233	21,116	4,441	25,557	25,415	142	38,430	1.397	1,635	3.566	131,297
1953	707.7	680,669	660,248	20,421	9,199	29,620	29,376	244	36,678	1.509	1,539	3.610	130,109
1954	652.1	623,552	623,965	(413)	4,182	3,769	32,527	(28,758)	32,882	1.529	1,472	3.628	122,237
1955	693.9	664,613	630,140	34,473	9,249	43,722	33,004	10,718	35,677	1.511	1,464	3.662	119,430
1956	785.7	754,931	710,977	43,954	13,906	57,860	31,783	26,077	41,935	1.461	1,501	3.758	126,639
1957	764.4	732,427	735,679	(3,252)	10,651	7,399	36,972	(29,573)	36,674	1.601	1,499	3.873	124,620
1958	716.3	680,993	698,327	(17,334)	12,264	(5,070)	46,521	(51,591)	35,077	1.554	1,269	3.980	113,086
1959	751.9	712,976	719,000	(6,024)	11,234	5,210	48,798	(43,588)	35,542	1.613	1,272	3.927	111,538
1960	723.4	663,214	681,692	(18,478)	12,004	(6,474)	61,023	(67,497)	34,011	1.547	1,208	3.990	104,155
1961	745.5	677,380	693,605	(16,225)	11,393	(4,832)	62,476	(67,308)	34,723	1.480	1,076	4.038	99,564
1962	772.1	701,623	707,442	(5,819)	19,398	13,579	62,498	(48,919)	35,595	1.487	1,044	4.212	97,922
1963	800.0	725,181	720,170	5,011	16,179	21,190	64,204	(43,014)	40,171	1.375	1,189	3.730	92,571
1964	864.2	782,632	775,175	7,457	16,477	23,934	62,660	(38,726)	44,516	1.355	1,613	3.212	93,194
1965	914.7	827,292	817,382	9,910	18,635	28,545	61,960	(33,415)	46,131	1.385	1,782	3.274	93,438
1966	998.6	906,142	881,874	24,268	15,841	40,109	64,702	(24,593)	49,643	1.376	1,995	3.382	92,604





Cover: Outside, the aerodynamic Turbo which will go into service during Centennial Year. Inside, an old-timer. Symbols of progress by a dynamic CN serving a growing Canada.