

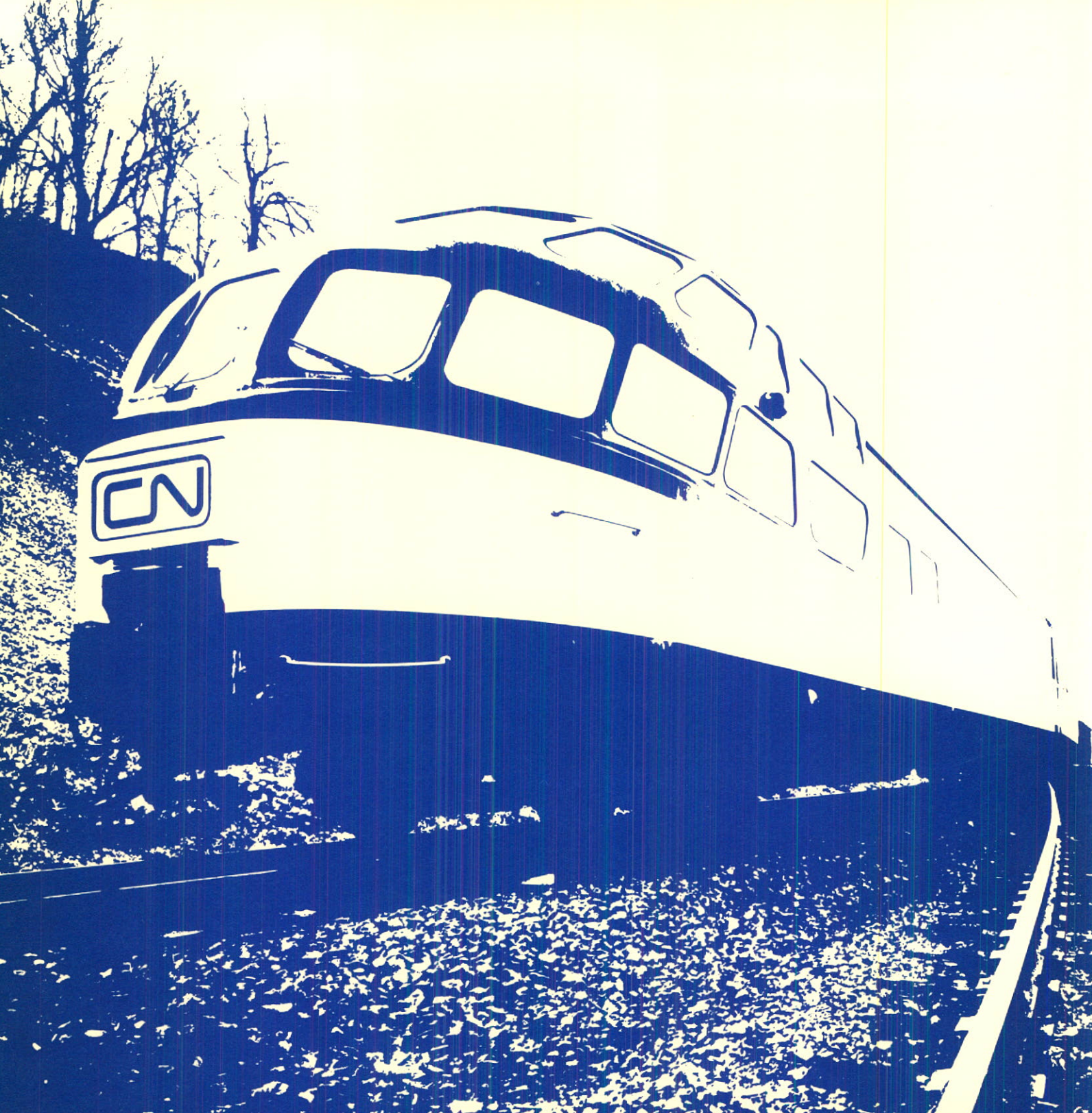
Annual Report  
1965

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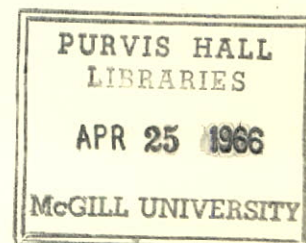
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Le Secrétaire  
des Chemins de fer Nationaux du Canada,  
C.P. 8100, Montréal (P.Q.),  
enverra sur demande le texte français du Rapport annuel de 1965.

Copies of the 1965 Annual Report in French may be obtained, upon request, from:  
The Secretary,  
Canadian National Railways,  
Box 8100, Montreal, Que.



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**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 1965.

## Financial Review

### General

Canadian National, in 1965, transacted more business than in any other year in its history and continued to show a steady improvement in its overall financial position. Gross revenues amounted to \$914.7 million.

The following table indicates the significant trends since 1960:

	1965	1964	1963	1962	1961	1960
			(In Millions)			
Gross revenues	\$914.7	\$864.2	\$800.0	\$772.1	\$745.5	\$723.4
Less non-rail revenues*	87.4	81.6	74.8	70.5	68.1	60.2
Railway operating revenues	827.3	782.6	725.2	701.6	677.4	663.2
Railway operating expenses	817.4	775.2	720.2	707.4	693.6	681.7
Net railway operating profit or (loss)	9.9	7.4	5.0	(5.8)	(16.2)	(18.5)
Other income	18.6	16.5	16.2	19.4	11.4	12.0
Net profit or (loss) before interest	28.5	23.9	21.2	13.6	(4.8)	(6.5)
Net interest on debt	61.9	62.6	64.2	62.5	62.5	61.0
Deficit	\$ 33.4	\$ 38.7	\$ 43.0	\$ 48.9	\$ 67.3	\$ 67.5

\* 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 a result of the year's operations CN showed a net operating profit, after depreciation but before interest, of \$28.5 million. This was an improvement of 19.2% over 1964. The operating surplus, however, fell short of the amount needed to meet interest charges on the outstanding debt of the Company and the overall financial result was a deficit of \$33.4 million. The deficit was smaller by 13.7% than in 1964 and by 50.5% than in 1960.

## Revenues

Railway operating revenues surpassed those of 1964 by \$44.7 million or 5.7%.

Railway freight services revenues increased over the previous year in each month of 1965 except January and February. Total freight services revenues reached a record \$654.3 million, better than the previous year by \$33.7 million or 5.4%.

Passenger services revenues increased over the previous year in every month except March. Total passenger services revenues were \$58.3 million, an increase of \$6.5 million or 12.5% over 1964. Gross revenues from telecommunications commercial services were up 7.8% in 1965 over 1964; gross revenues from CN-operated hotels and from separately operated trucking companies showed gains of 5.8% and 6.8% respectively for the same period.

Federal Government payments included in railway operating revenues in 1965 are shown in the following table and compared with 1964:

	1965	1964	Increase or (Decrease)
	(Millions of Dollars)		
Freight Rates Reduction Subsidy	\$10.7	\$10.2	\$ 0.5
Maritime Freight Rates Act	12.8	12.5	0.3
East-West Bridge Subsidy	2.9	3.3	(0.4)
Total included in freight services revenues	26.4	26.0	0.4
Interim Payments*	28.8	29.0	(0.2)
Newfoundland and P.E.I. Steamship Services (operated by CN as agent for Government)	21.5	19.3	2.2
Total	\$76.7	\$74.3	\$ 2.4

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

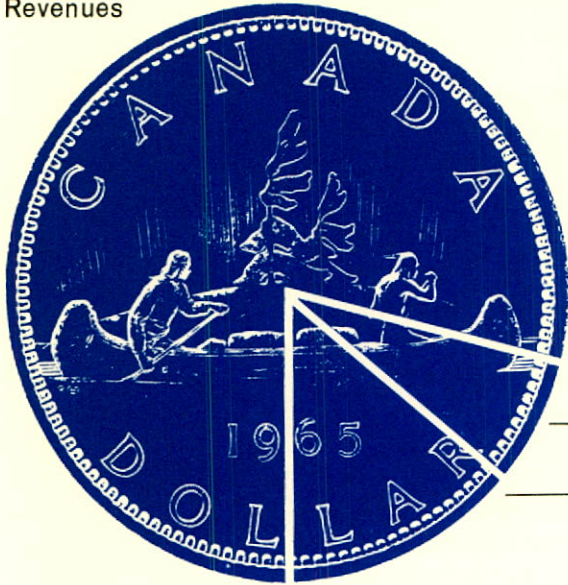
Outstanding at the end of the year was the amount to be paid by the Federal Government in respect of additional wage costs arising out of agreements reached in 1964 with non-operating and other railway employees. In correspondence exchanged between the Prime Minister and the presidents of CN and CPR in 1964 it was stated that the Federal Government would review the financial impact of these wage agreements on the railways, in the light of the freeze on freight rates and other relevant factors, in order to determine what financial arrangements should be made pending railway legislation based on the report of the MacPherson Royal Commission on Transportation.

## Expenses

Railway operating expenses amounted to \$817.4 million in 1965, an increase of \$42.2 million or 5.4% over 1964.

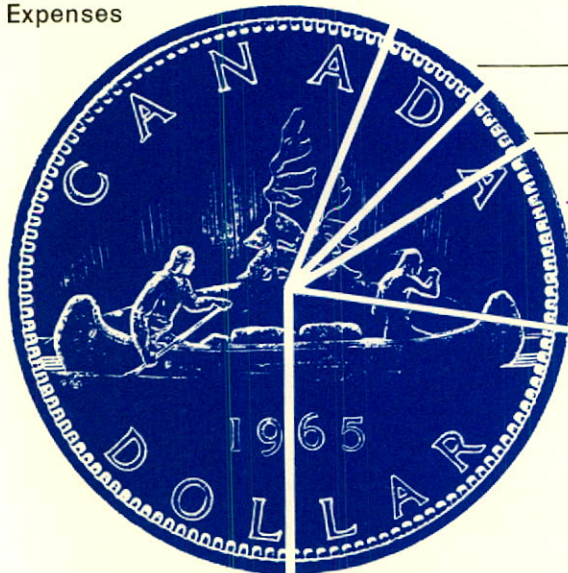
Railway Operating Revenues

Percent Year 1965



79.1	Freight services
7.1	Passenger services
13.8	Other
100.0	

Railway Operating Expenses



56.1	Operating wages
6.5	Pensions, welfare and other employee benefits
3.8	Locomotive fuel
11.0	Depreciation
22.6	Material and other expenses
100.0	

Increases in wages, pensions, welfare and other employee benefits added \$17.5 million to the cost of operating the Railway in 1965 and wages and benefits made up 62.6% of railway operating expenses compared with 61.0% in 1964.

Apart from the additional wage and benefit costs, railway operating expenses went up by \$24.7 million or 3.2% over 1964. These higher expenses reflect mainly the higher volume of traffic represented by increases of 3.4% in gross ton miles and 8.1% in passenger train miles.

### Depreciation

Total system depreciation amounted to \$104.3 million; \$3.3 million more than in 1964. The depreciation rates used are those approved by the Board of Transport Commissioners for Canadian lines and the Interstate Commerce Commission for U.S. lines.

### Taxes

System taxes of all types including agreed payments in lieu of taxes, amounted to \$53.7 million. The total is made up of \$5.1 million for unemployment insurance, \$21.8 million for Canadian provincial and municipal and U.S. state taxes and other miscellaneous taxes, \$3.1 million for payments under the U.S. Railroad Retirement Act, and \$23.7 million included in the purchase price of materials.

### Debt and Interest

Net interest on debt amounted to \$61.9 million, or a reduction of \$0.7 million from 1964. This decrease was primarily due to a reduction in annual amortization of discount on funded debt and repayments of interest-bearing debt of \$11.1 million at the close of 1964 and \$1.8 million in 1965.

## Freight Services

### Freight Movement

During the year Canadian National moved the greatest volume of freight in its history at generally improved levels of efficiency.

The freight work load, up by 3.4%, was at an all-time high of 101.1 billion gross ton miles. An indicator of improved efficiency was an increase in train loading by 1.3% to 2,582 gross tons per freight train, the highest yet recorded.

A major accomplishment of the year was the carriage of large grain shipments for export. Between August 1st and November 30th, 1965, CN moved 80,148 carloads compared with 78,462 carloads carried in the same period in 1963 when large Russian orders brought a similar challenge. As part of its 1965 grain handling program CN converted 860 hopper cars, leased



diesel locomotives from U.S. lines and increased car utilization through a variety of improved techniques. Towards the end of the year it was announced that a record quantity of grain had been cleared through Churchill and the Company was commended by the Canadian Wheat Board for the part it played in this achievement. Commendation for CN's overall grain moving performance was also expressed by representative members of the grain trade.

Primarily because of the location of its lines, CN, down through the years, has not been the major carrier of grain. In recent years, however, the Company's participation in this traffic has increased to the extent that in 1963 it carried, in the comparable periods mentioned above, 53.2% of the grain moved. In the same period in 1965, August 1st to November 30th, CN carried 51.7% of the total.

Present indications are that in the current crop year, as was done in 1963-64, the Company will move appreciably more grain than its traditional share of the total crop.

### Traffic Composition

Record amounts of general revenue traffic moved throughout 1965. Large contributions to freight services income came from the automobile industry and from mine and manufactured products. The acquisition of multi-level cars and other specialized equipment enabled the Company to move more automobiles, trucks and parts than in previous years. The expansion of the covered hopper fleet enabled CN to move more potash from the Prairies and more cement in both Eastern and Western Canada. Other new and converted equipment brought increased traffic in ores, concentrates, sulphur, pulpwood and woodchips, potash, iron and steel, livestock and food products.

A change in the proportion of manufactured goods carried has been evident for some time. Manufactures represented 30% of freight movements in 1956, had grown to 35% by 1964 and amounted to 37% in 1965. This is indicative of the expansion of industrial activity taking place in the Canadian economy and also of CN's success in obtaining new business much of which requires specialized equipment and servicing.

### Facilities & Equipment

A series of major capital improvements designed to enable CN to obtain better use of rolling stock and fixed facilities was rounded out with the opening of the new hump yard at Toronto and the installation of Centralized Traffic Control between Edmonton and Jasper. The Toronto project completes a sequence of automatic freight classification yards at Moncton, Montreal, Toronto and Winnipeg, while the Edmonton-Jasper installation makes possible continuous coverage from coast to coast by an up-to-date main-line signalling system.

The Vancouver Terminal Project, a major undertaking involving tunnel and bridge construction and extension of rail yard facilities, was started. This \$27 million project will greatly improve railway terminal facilities in the area.

New facilities and equipment during the year included a Terminal Car Control system at Halifax and two 1401 data processing electronic computers at Montreal. A wide variety of new rolling stock was received or ordered. Included in equipment ordered are 30 new high-powered diesel locomotives, ten of which generate 3,000 h.p. each and will be the most powerful of the fleet. New freight cars received in 1965 totalled 2,340. These included tri-level and bi-level cars for automobiles and trucks, trailer flat cars for piggyback services, gondola cars, ore cars and woodchip cars. Orders were placed for 3,050 additional freight cars for delivery in 1966.

## Sales

A generally expanding economy, the large grain movement and the ability of CN to provide the right kind of equipment and facilities were important factors in the broad gains in gross revenues and traffic shown by freight services in 1965. The forceful, customer-oriented sales policy of the Company also played a significant role.

As part of this policy there was further development of the marketing manager approach to freight sales. This approach involves the appointment by CN of a number of marketing managers each responsible for the development of a specific section of the freight market. An important function of the marketing manager is to work closely with customers and potential customers in order to determine their present and future transportation requirements and the best ways of meeting these requirements.

Commodity research studies, which help the Company to decide how much effort it should direct towards a particular market; customer research services, which make the many technical skills within the Company available to customers; and marketing information services designed to speed analyses and decision-making by Freight Sales Managers, were also continued and expanded.

The formal sales training program for freight sales representatives continued to be well received and to show good results.

Specialized advertising during the year stressed the technical skills and transportation knowledge which CN is able to put at the disposal of its customers.

A large-scale study of the possibility of setting up a system of quality control for freight service was begun during the year. It is believed that the study will result in a number of improvements including faster detection and correction of factors responsible for certain service problems.

## Express Freight

This new service, which is being developed from the gradual integration of Express and LCL (less-than-carload) services, was further developed in 1965. Application of the master agency principle, under which the function of the small wayside agency is transferred to a central

terminal, was extended to London, Ontario, and Sherbrooke, Quebec. Terminals especially adapted to the handling of Express Freight were completed at Charlottetown, Campbellton, Pembroke, Huntingdon and Saskatoon and tenders were called for a similar new terminal in Toronto.

A number of operational, legal and other difficulties are being encountered in the process of trying to provide shippers and the general public with efficient and economical pickup, transportation and delivery of what is known as "smalls" or "merchandise" traffic. A concentrated effort is being made to produce a satisfactory service.

### Piggyback Services

Continued growth of piggyback services was evident in an increase of 14% in tonnage and 12% in revenues over 1964. The Company is continuing test operations with various types of containers and the experience indicates that there will be steady expansion of the containerized freight transportation market during the next few years. CN plans to expand piggyback services in pace with this development. Eighty-four new containers and 32 flat cars adapted to the handling of containerized freight were put into service and orders have been placed for 400, 50-ton piggyback flat cars to be delivered in 1966.

### Trucking Subsidiaries

Net operating profit of the separately operated trucking companies whose stock is owned by Canadian National Transportation, Limited, was \$1.5 million.

## Passenger Services

### Sales

Passenger services revenues increased \$6.5 million or 12.5%, reaching a total of \$58.3 million for the year. The increase reflects improved services, fare adjustments, the growing popularity of the Red, White and Blue fare plan and the cancellation of the CN-CP Passenger Pool Agreement on 30 October, 1965.

The number of passengers carried in 1965 was up 12.3% to 17.4 million. Passengers took an average journey of 100.5 miles, slightly lower than 1964, and passenger miles increased 8.5% to 1,751 million, the highest traffic handled on passenger trains since 1948. Passenger trains covered a total of 19,843,000 miles, an increase of 8.1% over 1964.

The average passenger services revenue earned per passenger mile increased 3.7% to 3.332 cents. The average revenue earned for a train mile rose 4.1% to \$2.94, reflecting the higher rate of increase in revenues compared with passenger train miles.

## Schedules and Services

Consequent upon the termination of the Pool Agreement between the Canadian National and the Canadian Pacific Railway in October, an agreement was reached between the two companies, in consultation with the Board of Transport Commissioners, whereby only Canadian National would furnish passenger train service between Montreal and Toronto and between Ottawa and Toronto. Arrangements were thereupon made by Canadian National to continue and improve service to railway patrons in these areas. A highlight of the service arrangements was the inauguration of a name train, the "Rapido", between Montreal and Toronto. The "Rapido", which provides the fastest train passenger service in North America for a comparable distance, has been operating at an exceedingly high occupancy rate since its introduction. Between Ottawa and Toronto CN now provides convenient morning, afternoon and overnight service.

CN's Montreal-Ottawa passenger service was augmented with the inauguration of the noon-time "Bytownner". This train is proving a popular addition to the "Gatineau", the "Laurier" and other Montreal-Ottawa trains.

Adjustments in pricing, improvements in ticketing procedures, and studies of meal service arrangements were undertaken during the year. Work is proceeding on the development of an electronic reservation system suitable for railway operations with 1967 as the target date.

## Outlook

Canadian National considers that over the past few years it has been carrying out an energetic and forceful experimental passenger sales program which has consisted of (a) management organization, (b) marketing, and (c) changes in operation. During this period the Company took a positive stand on the need for expanding the passenger business and the benefits to be derived by the public from its use, and intensive efforts have been made to attract the public to rail service as a modern, reliable, efficient and pleasant mode of travel. These experiments have established that there is a large market for intercity transportation in Canada and that, taking account of competitive transportation services, the Railway can economically fulfill a role in intercity transportation in areas of relatively heavy density of population and, similarly, in those areas where indications of activity in the travel market are such as to be likely to produce a level of revenue which would meet the cost of the service. The Company, therefore, will concentrate on providing such passenger services as may be required in these heavy density population areas. Steps will be taken to seek withdrawal from, or obtain public monetary support for, those unprofitable services which do not fit into that pattern, the objective being to eliminate the deficit in passenger operations.

In the implementation of this policy all efforts will be continued and extended to build up and improve those services which are considered profitable or potentially so, and the objective will be to increase revenue and reduce expenses while at the same time providing a good quality service. A close study of all types of equipment and methods of operation that might enable the Company to attain these objectives will be maintained.

# Personnel and Labour Relations

## Labour Relations

Contracts with the non-operating unions and the Brotherhood of Railroad Trainmen representing approximately 63,000 employees expired December 31st, 1965. In previous contract negotiations the non-operating unions bargained as a unit but on the expiry of current contracts three groups—the Canadian Brotherhood of Railway, Transport and General Workers, seven shop craft unions and six other non-operating unions—presented separate and different demands. Negotiations were under way at the year-end, and initial estimates of the financial demands indicate them to be the largest ever made in the history of the Company.

Among other matters receiving the close attention of the Company was the report of Mr. Justice Samuel Freedman who was appointed by the Federal government to inquire into the industrial situation arising from the running of certain trains through the terminals of Nakina, Ont. and Wainwright, Alta. The Commissioner found that the Railway had a right, based on law and usage, to make the proposed changes in its operations and found run-throughs an appropriate and justifiable railway operation. The Commissioner made certain criticisms of the Railway for various aspects of its procedures involved in the Nakina and Wainwright run-through proposals and the Company is confident that the Commissioner's observations will contribute to general improvements in employer-employee relations.

## Joint Action

Joint labour-management action took place in a number of areas during 1965. Early in the year the shop craft unions agreed to join with management in a study of the manpower adjustment problems related to the closure of the London Car Shops in 1966. A joint union-management study team was established for this purpose and its recommendations were subsequently approved by both parties.

A tri-partite agreement has been signed whereby the Company, the International Longshoremen's Association and the Manpower Consultative Service of the Federal Department of Labour will conduct a manpower assessment program in connection with the proposed changes in the method of handling traffic across Cabot Strait.

A joint union-management program of inspection of bunkhouse facilities across the System was begun, the objective being to establish acceptable standards of comfort and convenience. Facilities in the Atlantic Region and throughout most of the St. Lawrence Region were inspected by Company and union representatives during the year.

Experience with the test installation of water coolers and sanitary facilities on diesel locomotives has been satisfactory and a program to equip the entire fleet was begun, with 1969 as a target for completion.

Decision to purchase seventy-five all-steel cabooses of a new and improved design and with up-to-date facilities was made and delivery is expected late in 1966. In considering the design and equipment for the interior of the cabooses the Company sought and received suggestions and comments of train crews, particularly those who used the experimental caboose placed in service in 1963.

The Canada Labour (Standards) Code, which became effective on July 1, 1965, sets minimum wages, working hours, vacations and general holidays for employees covered by Federal legislation. The nature of our operations and the working conditions of certain employee groups, which have been developed by mutual agreement over many years, have made it extremely difficult to give immediate effect to the provisions of the code relating to hours of work. Consequently, several applications for deferment of the hours of work provisions have been made through the Railway Association of Canada to allow management and the unions to work out suitable arrangements to comply with the code. These applications are still pending with the Department of Labour. Where practicable, collective agreements have been revised in accordance with the requirements of the code. Substantial additional labour costs are being incurred as a result of the implementation of the new code.

A permanent Canadian Railway Office of Arbitration, replacing the Canadian Railway Board of Adjustment No. 1, was established on July 1, 1965, by agreement between Canadian National, Canadian Pacific Railway Company, the Brotherhood of Locomotive Engineers, Brotherhood of Railroad Trainmen, Brotherhood of Maintenance of Way Employees and the Transportation-Communication Employees' Union. The parties have agreed to accept as binding the decisions of a single arbitrator in cases dealing with discipline, interpretation and application of collective agreements with the unions concerned. This is the first such office in Canada.

## Employee Relations

As part of the integrated program of Employee Communications, an Employee News Bureau was established to bring together all aspects of English and French communication with employees. A program to publish System, Regional and Area news in 23 monthly Area and Shop tabloid newspapers began. Among new publications is one designed to keep union officials abreast of company activities.

Training and education have continued at a high level of activity. There were approximately 55,000 enrolments in training courses of one kind or another. Train crews and others who meet and deal with passengers took part in customer relations seminars and the long-term general program of French and English language instruction continued.

## Pensions & Welfare

CN's pension arrangements were thoroughly reviewed in the light of the coming into force on January 1, 1966, of the Canada and Quebec Pension Plans.

The Company, having had improvements in its pensions and welfare plans under consideration for some time, proposed (a) to improve the pension rate under the CN 1959 Pension Plan to a uniform 1½% for each year of allowable service (instead of 1¼% for the first 30 years and 1½% for each additional year) for members of that plan retiring after June 1, 1965, and to increase the employee contribution rate from 5½% to 6½% of earnings after that date and (b) to co-ordinate the improved CN Plan with the Canada and Quebec Plans as of January 1, 1966, in such a manner that the combined benefits of the Company and government plans would be not less—and generally greater—than those under the improved Company plan and that the combined employee contribution rate would be approximately the same.

In view of opposition to the Company's intentions that arose in the Association of General Chairmen of the various unions representing CN employees, the improved and co-ordinated CN 1959 Plan was proceeded with initially only for non-schedule employees. The General Chairmen's Association subsequently reconsidered its position and asked that the plan as it applied to non-schedule employees be extended to schedule employees. This has been done since the year end.

(Because of these recent developments the re-valuation of the pension funds to reflect the change of benefits and co-ordination with the Canada and Quebec Pension Plans, now being carried out by the Trustees' actuaries, could not be completed in sufficient time for publication of the usual pension fund statements with the other schedules of this report.)

No change was made in the CN 1935 Pension Plan and the benefits and contributions under the Canada and Quebec Pension Plans are, therefore, additional to the benefits and optional contributions under the 1935 plan.

Arrangements were made to co-ordinate the provisions of the Intercolonial and Prince Edward Island Railways Employees' Provident Fund with the government plans.

Total charges against CN earnings for pensions (excluding U.S. Railroad Retirement taxes of \$3.1 million) in 1965 compared with 1964 were as follows:

	1965	1964	Increase or (Decrease)
	(Millions of Dollars)		
1935 and 1959 Pension Plans	\$31.9	\$29.1	\$ 2.8
Pre-1935 Plans, etc. (including I.C. & P.E.I. Railway Employees' Provident Fund)	6.9	7.1	(0.2)
Total	\$38.8	\$36.2	\$ 2.6

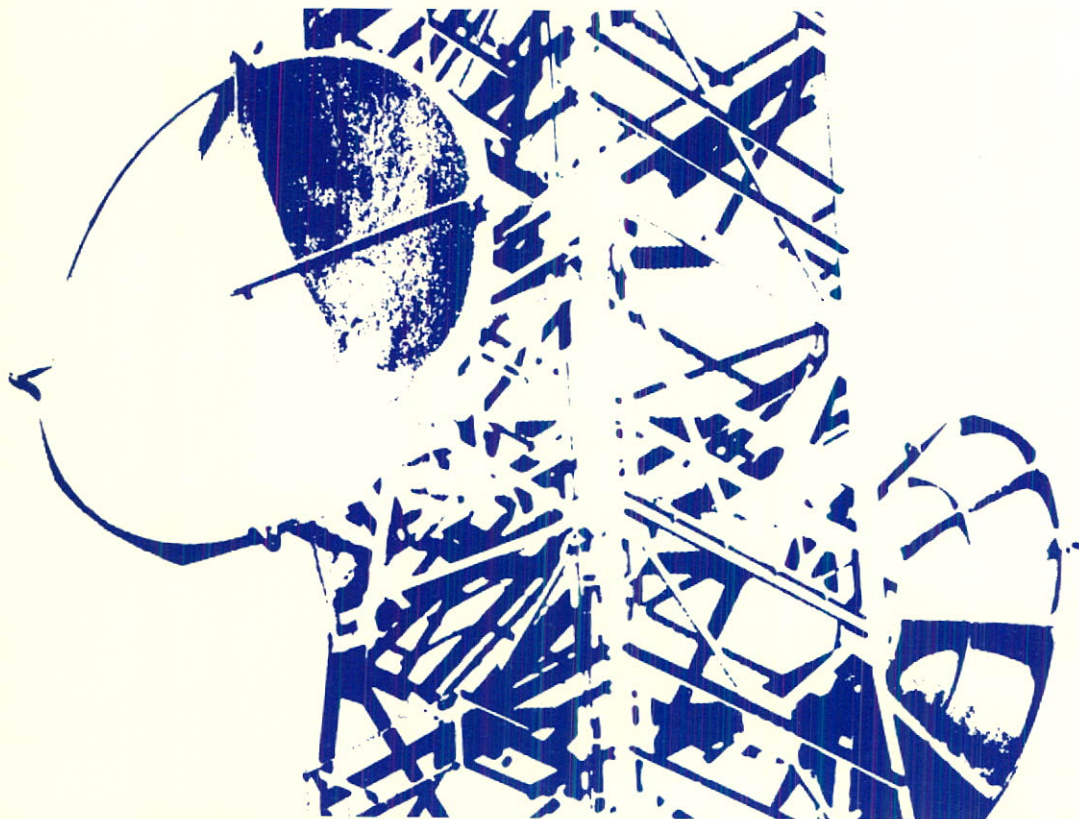
Exclusive of payments made under the U.S. Railroad Retirement Act, there was paid to pensioners and beneficiaries, under the various Canadian National pension arrangements, a total

of \$42.3 million in 1965 and 31,443 individuals were receiving such payments at the year end.

The Job Security Program for Schedule Non-operating Employees was implemented effective January 16, 1966. This program was provided for under a Supplementary Agreement with non-operating unions setting up a Job Security Fund from which laid-off employees may receive a separation allowance either as a lump sum or in weekly payments.

Charges against CN earnings for welfare plans providing hospital-surgical-medical benefits and life insurance were \$7.7 million in 1965 compared with \$6.9 million in 1964.

## System Activities





## Telecommunications

In Canada the role of telecommunications is of increasing importance to industry and the general economy.

CN Telecommunications, through its modern microwave systems, provides transmission facilities from coast to coast for: computer and business machine data; stock exchange quotations; facsimile weather maps; telex; television and radio networks; custom-designed teletype systems; the Canadian link in the Commonwealth Communications System; local and long distance telephone service; and strategic requirements of national defence. This coming year will see the provision of equipment capable of handling many thousands of words per minute.

Net income from CN Telecommunications commercial services in 1965 was \$5.4 million, a gain of 25.6% over 1964. Revenues from telex, telephone and broadcast facilities were up over 1964. Telegram revenues remained steady.

The CN-CP Toronto-Buffalo microwave link began commercial operation in 1965. This link, connected to Western Union's microwave facilities across the U.S., is capable of carrying 600 voice channels for use in telephone, telex, and data handling.

The new electronic switching system installed in the Toronto Telecommunications Building handled 800,000 Air Canada messages per month in 1965.

Since July, some 50 CN offices have been connected to the Toronto system to provide rapid transmission of administrative data across the System.

Progress in constructing a pole line in the Northwest Territories continued, as the section from Fort Simpson to Norman Wells was completed. When finished in 1966, the project will extend telephone, telex and broadcast services as far north as Inuvik.

In Newfoundland, public mobile telephone service, linked to the commercial long distance network, was established.

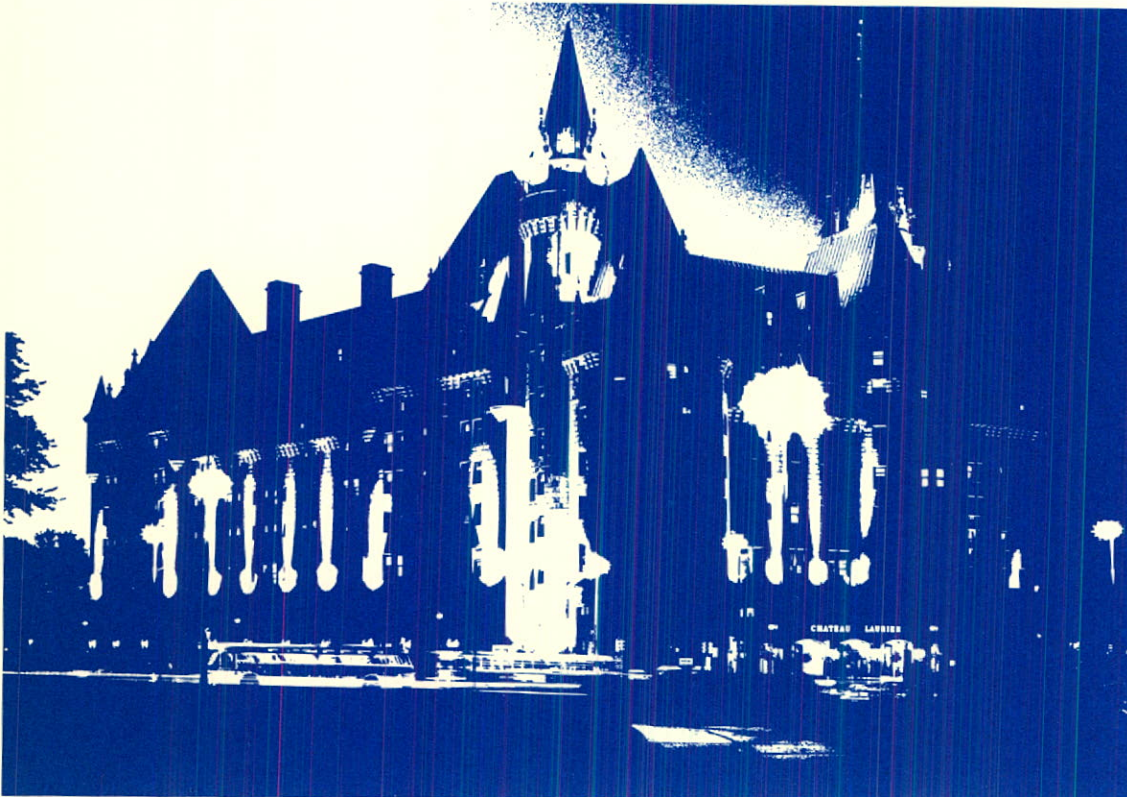
Ten new Telex exchanges opened in 1965, bringing the total to 81, serving 826 communities and 9,800 subscribers.

## Hotels

The nine hotels owned by CN made important contributions to income and to the prestige of the Company, during the year. A five-year renovation and modernization program for CN-operated hotels which was begun in 1963 went forward very actively and costs connected with this, and with modernization of the Hilton-operated Hotel Vancouver, were responsible for a decrease in net income compared with the previous year. The overall hotel operation is, however, considered a quite satisfactory part of System activities.

The following is a comparative summary of the financial results for 1965 and 1964:

	1965	Income or (Loss)	1964
<b>CN-Operated Hotels:</b>			
Net income before undernoted charges	\$ 632,329		\$ 519,591
Major repairs and modernization costs	531,537		300,163
Net income	100,792		219,428
<b>Hilton-Operated Hotels:</b>			
Net (loss) from Hotel Vancouver	(640,664)		(230,935)
Net return from the Queen Elizabeth Hotel (including Place Ville Marie restaurants)	1,614,655		1,909,427
Net return	973,991		1,678,492
Net Hotel Income	\$1,074,783		\$1,897,920



The program to modernize CN's year-round hotels by 1967 progressed satisfactorily. At the Chateau Laurier, installation of air-conditioning continued, new salons were constructed on the mezzanine and older salons rehabilitated. A new cocktail bar opened for business and the renovation of the main lobby neared completion. At the Nova Scotian, a number of bedrooms were modernized and improvement of the lobby was undertaken. At the Newfoundland Hotel, refurnishing and redecoration of guest rooms was finished and at the Fort Garry, the air-conditioning was completed. The Bessborough and the Macdonald continued air-conditioning and modernization programs.

At Jasper Park Lodge the fifth phase in a new cabin construction program was completed and the present fall and winter construction program will complete the guest accommodation replacement program. New staff accommodation was also provided.

The rehabilitation of the Hotel Vancouver continued during the year and the modernization of most guest rooms was completed. Complete redesign of the Panorama Roof was also carried out and this room is now open for business.

### Research & Development

The active research program which helps CN to keep abreast of the latest developments in transportation science and technology was broadened in 1965.

Loss and damage prevention received special attention as this function was reorganized within the Customer Research Service. The objective of the reorganization is to bring a variety of analytical and technical skills and facilities, available throughout the Company, to bear on the problem. A System-wide team of loss and damage prevention specialists is being developed.

In the field of technical research a new car coating developed in CN's Technical Research Laboratory may reduce by 50% the cost of maintaining the interiors of covered steel hopper cars. CN researchers have also developed a new method of determining the condition of lubricating oil which promises substantial savings in filter costs; also a special car for low pressure material handling that offers advantages to many customers and will cost the Company at least 25% less than current equipment.

### Industrial Development

There was a significant increase in business investment in Canada, particularly in the mining, chemical, pulp and paper, and automotive industries. CN's Industrial Location Service continued to assist industry in determining the best locations for new plants being established in Canada. A total of 482 resource developments, manufacturing plants, and warehousing and distributing facilities were established in locations served directly by CN freight services. In addition, 197 industries already served by CN expanded their facilities. Of the foregoing new

plants and expansions, some 436 required direct private siding service. Private siding and industrial spur construction totalled 71 miles.

### Branch Lines

A 12-mile line was built from the Froomfield spur at Sarnia, Ontario, to the property of Canadian Industries Limited at Courtright, Ontario.

Bridge construction on the Great Slave Lake Railway was completed in October 1964, and all track laid by the following spring. Ballasting and lifting operations are expected to be completed in mid-summer of 1966.

Negotiations are proceeding with several mining companies concerning provision of rail service to substantial base metal deposits and, as a result, it is probable that during 1966 CN will seek legislative authority to construct additional branch lines.

Agreement was entered into with the Alberta Resources Railway Corporation, a Provincial Crown Corporation, whereby CN, acting for the corporation, will supervise the construction of 100 miles of line beginning at Solomon near Jasper, and extending northwesterly into an area of coal deposits and heavy timber stands at the confluence of the Muskeg River with the Smoky River. This line will be operated by CN under a lease arrangement.

### Real Estate

During the year Canadian National continued its policy of attracting private investment for development of the Company's valuable real estate holdings. In Saskatoon, work began on the Mid-Town Plaza which is being developed by Crescent Leaseholds Ltd. on CN property in the center of the city. This project, expected to involve private investment of about \$15 million, will include a 12-storey office building, two department stores and a number of small shops. On the same 22-acre site work has also begun on the Saskatoon Centennial Auditorium.

In Montreal, a major development on CN property by Place Bonaventure Inc. proceeded on schedule and is slated for completion in April 1967. This single structure will house retail space, Canada's largest exhibition hall, five floors of merchandise mart space, office space and hotel accommodation.

Work also proceeded on the office building being constructed by Terminal Tower Corporation on CN property adjacent to the Queen Elizabeth Hotel in downtown Montreal.

A real estate development project at the rear of CN's Hotel Vancouver was in the design stage at the year's end. It is expected that construction of a 500-stall parking garage and an office tower incorporating some retail space will begin early in 1966. This development is being carried out by Avis Transport of Canada Ltd. and Avord Holdings Ltd.

## Marine Services

Canadian National acts as agent of the Federal Government for the operation of marine services across the Cabot Strait and the Newfoundland Coastal Services. Two more vessels have been acquired by the Department of Transport: the S.S. Patrick Morris, a container ship with refrigeration space which went into the Cabot Strait service during the year, and the passenger auto ferry, M.V. Leif Eiriksson, which will begin service between North Sydney and Port aux Basques in June 1966.

Very heavy freight traffic was handled in the Newfoundland Coastal Services during 1965 and 17 vessels were chartered at various times during the year to supplement the 13 ships regularly providing service around the island.

On the West Coast the S.S. Prince George made 20 regular passenger cruises from Vancouver to Skagway, Alaska, plus three chartered cruises.

The Aqua-Train between Prince Rupert and Whittier, Alaska, maintained a weekly service throughout the year.

## CN-CP Act

During 1965 CN continued to explore with the Canadian Pacific Railway Company areas where co-operation between the two companies might be advantageous.

# Perspective and Outlook

Total business in 1965 exceeded that of any other year in the history of the Company and present indications are that in the coming year the total gross revenues will draw closer to the billion-dollar mark.

The net position has continued to show encouraging gains since 1960 resulting in a net income of \$28.5 million before interest on debt compared with \$23.9 million in the previous year. On rail operations, the net railway operating income position has been converted from an \$18.5 million loss in 1960 to a \$9.9 million surplus in 1965. The overall deficit has been reduced by 50.5% since 1960. However, the year closed with a deficit of \$33.4 million, still sizable by any measure but due to the heavy net interest on debt of \$61.9 million. The Company considers that a revision of its capital structure is essential to reflect properly the present-day conditions of its operational and organizational investment. The provisions of the Capital Revision Act of 1952 have now extended beyond the normal term and the Speech from the Throne of January 1966 indicated that Parliament "will also be asked to consider a measure respecting the capital structure of Canadian National Railways."

Canadian economic activity continued to move upwards in 1965. For the year as a whole when the final data are in, total output, as measured by the Gross National Product, should show an increase of about nine per cent in value terms over the previous year which would make it about equal to the percentage increase in 1964 as compared to 1963. In real terms, the volume of output is expected to show a 6½% increase for 1965 over the level of the previous year which would also be equal to that of 1964 over 1963. CN reflected this general improvement in the economy. For the year as a whole, System revenue ton miles amounted to 46.1 billion or a 3.6% increase while CN-System railway operating revenues were approximately \$827 million or 5.7% greater than that of 1964. These gains can be considered a good performance when viewed in the light of the intense competitive conditions in the transportation industry.

As indicated elsewhere in this Report, there were significant gains in general business investment, particularly in the mining, chemical, pulp and paper, and automotive industries. The Company's industrial development and location services assisted industry to find suitable sites for new plants and to extend existing facilities. Private sidings and industrial spur lines were constructed where necessary.

The policy of joining with industry in the construction of necessary branch lines to open up valuable resources in various parts of the country was continued. At the year end negotiations were under way with several mining companies concerning rail service to substantial base metal deposits.

Again in conjunction with private industry, the Company has been instrumental in the initiation of important real estate developments across the country.

The past year saw the completion of a long-term rehabilitation and modernization program involving both the plant and administrative structure of the Company. Over the past decade and more, this has taken the form of complete conversion of the locomotive fleet from steam to diesel; replacement of obsolete units of freight equipment and development of new units of special size and construction to meet specific shipper needs; the purchase of a number of trucking firms to diversify the Company's freight handling capabilities and the development and expansion of piggyback services, as well as a new approach to the less-than-carload freight business; construction of four classification freight yards at Moncton, Winnipeg, Montreal and Toronto; installation of electronic signalling on the main line from coast to coast to increase safety and the carrying capacity of the track; train-to-train and train-to-wayside radio communication as added efficiency and safety features; a five-year program of renovation and modernization of the CN chain of hotels including the restyling of dining rooms, restaurants, lounges and other public rooms; construction of a microwave network in Canada's north and another across Canada in co-operation with Canadian Pacific. Landline and telephone facilities were expanded in many areas and a tropospheric scatterwave system is reaching into the Arctic. Emphasis has been placed on the marketing approach in both freight and passenger activities involving aggressive selling and promotion; data processing has replaced outmoded techniques and made available timely statistics for the control of car movement and

up-to-the-minute data for sales forces; a new symbol has been adopted as part of a redesign program which reflects the aggressiveness and enthusiasm of the management and employees in sales and operations effort.

A particular and positive program has been developed dealing with the human resources of the Company involving training and retraining of employees to meet the adjustments required in a highly competitive industry and to meet, as well, the challenge of technological change. This involved supervisory development courses; training of sales personnel; instruction of employees dealing with the public. A special program has been under way in the Company for some years, emphasizing French and English instruction.

The organization structure of the Company was given a complete overhaul commencing in 1961, and the administrative changes were the first since the formation of the System in 1923. The new organization is considered more adapted to present-day transportation needs.

While certain improvements have been made in the financial position the immediate financial outlook of the Company must remain obscure more particularly in light of the wage demands which have been served on the Company by its unions. The cost of these demands is the highest ever served on the railways.

On other legislative matters, the Federal government has indicated in the Speech from the Throne its intention of dealing with the recommendations arising out of the MacPherson Royal Commission on Transportation. Such legislation is considered of great importance to the transportation industry as a whole and of benefit to the national economy.

The Board of Directors and Management feel justified in stating that the Company, as indicated by its performance, is constantly, forcefully and energetically endeavouring to fulfill its role as a great national enterprise.

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## Staff

Since the previous report, the following executive officers retired in accordance with the Company pension rules, after devoting many years of outstanding service:

Mr. E. A. Bromley, Vice-President—Purchases & Stores, 47 years of service; Mr. H. C. Grayston, Vice-President—Atlantic Region, 50 years of service; Mr. J. R. White, General Manager—Telecommunications, 43 years of service; Mr. W. D. McPherson, General Manager—Mountain Region, 47 years of service; Dr. K. E. Dowd, Chief Medical Officer, 37 years of service; Mr. G. F. V. Middleton, Manager—Calgary Area, 47 years of service.

The untimely death of Mr. L. J. Mills, Assistant Vice-President—Accounting, is recorded with profound sorrow.

The death of Mr. R. C. Vaughan, former President and Chairman of the Board of Canadian National Railways, also saddened friends and associates in the railroad industry, with which he had been associated for more than 50 years.

The Board of Directors again wishes to express its appreciation to all officers and employees for their contribution to the achievements of the System in 1965.

A handwritten signature in blue ink, appearing to read "Alexander".

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Signed on behalf of the Board of Directors

Montreal, March 15, 1966



## Executive and General Officers

**Donald Gordon**, C. M. G., LL.D., D.C.L., President  
**N. J. MacMillan**, Q. C., Executive Vice-President  
**S. F. Dingle**, System Vice-President  
**R. H. Tarr**, Vice-President and Executive Assistant  
**R. T. Vaughan**, Vice-President and Secretary of the Company  
**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

**H. C. Friel**, Q.C., Vice-President  
**Lionel Côté**, Q.C., General Counsel  
**J. W. G. Macdougall**, Q.C., General Solicitor

### 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, Real Estate

### Freight Sales

**A. H. Hart**, Vice-President  
**G. R. Johnston**, Assistant Vice-President  
**H. B. Parr**, General Freight Sales Manager

### Passenger Sales and Services

**J. H. Richer**, Vice-President  
**W. E. McCall**, General Manager

### Transportation and Maintenance

**J. W. Demcoe**, Vice-President  
**D. M. Trotter**, 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  
**C. A. Bérubé**, General Manager  
**L. M. Poitevin**, Manager, Quebec Area, Quebec City  
**J. F. Roberts**, 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  
**E. P. Stephenson**, General Manager  
**J. H. Spicer**, Manager, Toronto Area, Toronto  
**K. E. Hunt**, Manager, London Area, London  
**W. R. Mitchell**, Manager, Northern Ontario Area, Capreol

### Prairie Region

**W. C. Bowra**, Vice-President, Winnipeg  
**A. Skinner**, General Manager  
**S. E. Spencer**, Manager, Lakehead Area, Port Arthur  
**L. H. B. Gooding**, Manager, Winnipeg Area, Winnipeg  
**E. S. Barker**, Manager, Assiniboine Area, Winnipeg  
**R. J. Hansen**, 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

**H. A. Sanders**, Vice-President and General Manager, Detroit

### Telecommunications

**H. J. Clarke**, General Manager, Toronto  
**M. L. Prentice**, Assistant General Manager

### Hotels

**S. S. Chambers**, General Manager, Montreal

### European Organization

**J. C. Kenkel**, 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  
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  
Vancouver Hotel 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

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## Consolidated Balance Sheet at December 31, 1965

### Assets

<b>Current Assets</b>	Cash	\$ 30,210,047	
	Accounts receivable	126,849,294	
	Material and supplies	71,083,427	
	Other current assets	15,491,683	
	Government of Canada—Due on deficit account	12,017,755	\$ 255,652,206
	<hr/>		
<b>Insurance Fund</b>			17,042,171
	<hr/>		
<b>Investments in Affiliated Companies not Consolidated</b>	Air Canada	240,819,500	
	Jointly operated rail and terminal facilities	48,072,667	288,892,167
	<hr/>		
<b>Property Investment</b>	Road	2,598,173,109	
	Equipment	1,403,049,380	
	Other physical properties	135,914,225	
		<hr/>	
	Less recorded depreciation	4,137,136,714 939,002,107	3,198,134,607
	<hr/>		
<b>Other Assets and Deferred Charges</b>	Other investments	3,853,705	
	Prepayments	2,215,986	
	Unamortized discount on long term debt	15,996,908	
	Other assets	7,403,409	
	Deferred charges	11,876,279	41,346,287
	<hr/>		
			<b><u>\$3,801,067,438</u></b>

## 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, 1965 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, 1965 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 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 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 21, 1966

## Consolidated Balance Sheet at December 31, 1965

### Liabilities

<b>Current Liabilities</b>	Accounts payable	\$ 91,453,076	
	Accrued charges	19,680,342	
	Other current liabilities	9,762,738	\$ 120,896,156
<hr/>			
<b>Provision for Insurance</b>			17,042,171
<hr/>			
<b>Other Liabilities and Deferred Credits</b>			37,134,602
<hr/>			
<b>Long Term Debt</b>	Bonds	1,368,085,264	
	Government of Canada loans and debentures	410,354,762	1,778,440,026

### Shareholders' Equity

<b>Government of Canada</b>	6,000,000 shares of no par value capital stock of Canadian National Railway Company	359,963,017	
	1,041,964,989 shares of 4% preferred stock of Canadian National Railway Company	1,041,964,989	
	Capital investment of Government of Canada in the Canadian Government Railways	441,281,292	
<hr/>			
		1,843,209,298	
<b>Capital Stock of Subsidiary Companies Owned by Public</b>		4,345,185	1,847,554,483
<hr/>			
			<b>\$3,801,067,438</b>

The notes on page 28 are an integral part of this Balance Sheet.

W. R. Corner,  
Comptroller.

## Notes to Consolidated Financial Statements at December 31, 1965

- 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 1965. 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.
- Note 4: Major Commitments**
- (a) Pension Funds:  
The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$444,000,000 for the outstanding liability in respect of prior service of active employees. The pension funds are in the course of re-evaluation by the Trustee's actuaries to determine the amount of the increase in the Company's outstanding liability resulting from revisions in the pension benefits and co-ordination of these with the Canada and Quebec pension plans.
- (b) Vacation Pay:  
In accordance with past practice the Company has not recorded the liability for vacations earned in 1965 which will be paid in 1966.
- (c) 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 \$10,003,000 First Collateral Trust Mortgage 4½% Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company. In addition, the proprietors are obligated to make 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 annual payments is one-fifth.
- (d) 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 \$35,015,000 First Mortgage 4½% 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, 1965 Grand Trunk Western Railroad's usage was approximately 1.4% of the total.
- (e) 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 \$2,608,000 First Mortgage 3¼% 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.
- Note 5: Contingent Asset** Outstanding at the end of the year was the amount to be paid by the Federal Government in respect of additional wage costs arising out of agreements reached in 1964 with non-operating and other railway employees. In correspondence exchanged with the Prime Minister in 1964 it was stated that the Federal Government would review the financial impact of the agreements on the railways, in the light of the freeze on freight rates and other relevant factors, in order to determine what financial arrangements might be made up to the coming into effect of new railway legislation based on the report of the MacPherson Royal Commission on Transportation.

## Consolidated Income Statement

	1965	1964
<b>Railway Operating Revenues</b>		
Freight services	\$654,324,287	\$620,622,512
Passenger services	58,340,349	51,817,902
Mail	11,557,396	10,445,092
Express	47,618,403	46,024,149
Other	26,698,639	24,722,024
Interim payments—Royal Commission on Transportation	28,752,278	29,000,000
<b>Total railway operating revenues</b>	<b>827,291,352</b>	<b>782,631,679</b>
<b>Railway Operating Expenses</b>		
Road maintenance	150,984,071	148,013,832
Equipment maintenance	168,666,117	165,593,343
Transportation	357,040,732	338,460,293
Sales	20,049,914	18,739,687
Miscellaneous	12,349,008	10,297,314
General	71,250,292	63,621,004
Railway tax accruals	25,811,044	21,201,828
Equipment and joint facility rents	11,230,634	9,247,638
<b>Total railway operating expenses</b>	<b>817,381,812</b>	<b>775,174,939</b>
<b>Net railway operating income</b>	<b>9,909,540</b>	<b>7,456,740</b>
<b>Other Income</b>		
Net income from:		
Telecommunications department	5,388,829	4,340,215
Hotels	1,074,783	1,897,920
Separately operated trucking companies	1,528,581	1,523,192
Other sources	10,642,889	8,716,204
<b>Total other income</b>	<b>18,635,082</b>	<b>16,477,531</b>
<b>Net income before interest on debt</b>	<b>28,544,622</b>	<b>23,934,271</b>
<b>Interest Charges</b>		
Total interest on debt	73,257,418	74,151,433
Less interest received on loans to Air Canada	11,297,912	11,491,258
<b>Net interest on debt</b>	<b>61,959,506</b>	<b>62,660,175</b>
<b>Deficit</b>	<b>\$ 33,414,884</b>	<b>\$ 38,725,904</b>

## Property Investment Statement

<b>Property Investment at December 31, 1964</b>		<b>\$4,046,327,791</b>
<b>Capital Expenditures in 1965</b>		
New lines and diversions	\$ 1,476,690	
Roadway improvements	25,906,532	
Large terminals	3,505,506	
Yard tracks and sidings	3,952,711	
Buildings	3,545,123	
Highway crossing protection	389,833	
Signals	787,178	
Roadway and shop machinery	3,285,403	
Other facilities	1,787,253	
<b>Total—Road property</b>	<b>44,636,229</b>	
Branch lines	1,066,528	
Equipment	69,787,566	
Telecommunications	15,054,341	
Hotels	5,682,151	\$136,226,815
Government of Canada net expenditure on Canadian Government Railways		106,856
Additions to property in 1965	136,333,671	
Deduction in respect of property retirements in 1965	45,524,748	90,808,923
<b>Property Investment at December 31, 1965</b>		<b><u>\$4,137,136,714</u></b>

## Recorded Depreciation Statement

<b>Recorded Depreciation at December 31, 1964</b>		<b>\$ 867,747,677</b>
<b>Add provision for depreciation for the year</b>		
Road property	\$54,085,739	
Equipment	45,891,959	
Other physical properties	4,307,351	\$104,285,049
<b>Deduct net charges in respect of property retirements</b>	<b>33,030,619</b>	<b>71,254,430</b>
<b>Recorded Depreciation at December 31, 1965</b>		<b><u>\$ 939,002,107</u></b>



## Long Term Debt

	Rate %	Maturity (See Notes)		Currency in which payable	Outstanding at Dec. 31, 1964	Transactions Year 1965 Increase or (Decrease)	Outstanding at Dec. 31, 1965
<b>Bonds</b>	3	Jan. 3, 1966 a	Canadian National 17 Year Bonds	Canadian	\$ 35,000,000		\$ 35,000,000
	2½	Jan. 2, 1967 b	Canadian National 20 Year Bonds	Canadian	50,000,000		50,000,000
	4½	Apr. 1, 1967 f	Canadian National 6½ Year Bonds	Canadian	72,300,000		72,300,000
	5	May 15, 1968 f	Canadian National 9 Year Bonds	Canadian	55,800,000		55,800,000
	2¾	Sept. 15, 1969 b	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
	2¾	Jan. 16, 1971 c	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
	5½	Dec. 15, 1971 f	Canadian National 12 Year Bonds	Canadian	190,561,500		190,561,500
	3¾	Feb. 1, 1974 d	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
	2¾	June 15, 1975 e	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
	5	May 15, 1977 f	Canadian National 18 Year Bonds	Canadian	84,150,000		84,150,000
	4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
	5¾	Jan. 1, 1985 f	Canadian National 25 Year Bonds	Canadian	99,500,000		99,500,000
	5	Oct. 1, 1987 f	Canadian National 27 Year Bonds	Canadian	164,500,000	\$(1,750,000)	162,750,000
	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
			<b>Total Bonds</b>		<b>1,369,835,264</b>	<b>(1,750,000)</b>	<b>1,368,085,264</b>
<b>Government of Canada Loans and Debentures</b>			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		238,000,000
			<b>Total Government of Canada Loans and Debentures</b>		<b>410,354,762</b>		<b>410,354,762</b>
			<b>Total Long Term Debt</b>		<b>\$1,780,190,026</b>	<b>\$(1,750,000)</b>	<b>\$1,778,440,026</b>

**Notes:** a Refinanced Jan. 3, 1966 under Refunding Act, 1955  
b Callable at par  
c Callable at par on or after Jan. 16, 1966

d Callable at par on or after Feb. 1, 1972  
e Callable to June 14, 1966 at 101%; thereafter to June 14, 1970 at 100½%; thereafter at par

f Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue

## Shareholders' Equity

<b>Government of Canada</b>	No par value capital stock of Canadian National Railway Company	\$ 359,963,017		\$ 359,963,017
	4% Preferred stock of Canadian National Railway Company	1,016,106,453	\$ 25,858,536	1,041,964,989
	Capital investment in Canadian Government Railways	441,174,436	106,856	441,281,292
	<b>Total Government of Canada</b>	<b>1,817,243,906</b>	<b>25,965,392</b>	<b>1,843,209,298</b>
<b>Capital Stock of Subsidiary Companies Owned by Public</b>		<b>4,345,185</b>		<b>4,345,185</b>
	<b>Total Shareholders' Equity</b>	<b>\$1,821,589,091</b>	<b>\$ 25,965,392</b>	<b>\$1,847,554,483</b>

## Investments in Jointly Operated Rail and Terminal Facilities

		Percentage Held	Investment at Dec. 31, 1964	Transactions Year 1965 Increase or (Decrease)	Investment at Dec. 31, 1965
<b>The Belt Railway Company of Chicago</b>	Capital Stock	8.33	\$ 240,000		\$ 240,000
	Advances		66,827	\$ (19,147)	47,680
<b>Chicago &amp; Western Indiana Railroad Company</b>	Capital Stock	20	1,000,000		1,000,000
	Advances		7,092,970	(34,576)	7,058,394
<b>The Detroit &amp; Toledo Shore Line Railroad Company</b>	Capital Stock	50	1,500,000		1,500,000
	Capital Stock	50	1,000,000		1,000,000
<b>Detroit Terminal Railroad Company</b>	Capital Stock	50	8,540,000	100,000	8,640,000
	Bonds	50	16,500,000	200,000	16,700,000
<b>The Public Markets, Limited Railway Express Agency, Inc.</b>	Capital Stock	50	575,000		575,000
	Capital Stock	0.6	600		600
	Advances		173,493		173,493
<b>The Shawinigan Falls Terminal Railway Company</b>	Capital Stock	50	62,500		62,500
<b>The Toronto Terminals Railway Company</b>	Capital Stock	50	250,000		250,000
	Bonds	50	10,814,700	(189,700)	10,625,000
	Advances		200,000		200,000
<b>Total</b>			<b>\$48,016,090</b>	<b>\$ 56,577</b>	<b>\$48,072,667</b>

## Source and Application of Funds for the Year 1965

	<b>Working Capital January 1, 1965</b>	<b>\$122,240,045</b>
<b>Source of Funds</b>	Provision for depreciation	\$104,285,049
	Issue of 4% preferred stock	25,858,536
	Government of Canada in respect of deficit for the year	33,414,884
	Retained proceeds from properties retired	12,494,129
	Other (net)	7,855,106
		<b>\$183,907,704</b>
<b>Application of Funds</b>	Additions to property investment	\$136,226,815
	Deficit for the year	33,414,884
	Decrease in long term debt	1,750,000
		<b>\$171,391,699</b>
	<b>Net Increase in Working Capital</b>	<b>12,516,005</b>
	<b>Working Capital December 31, 1965</b>	<b>\$134,756,050</b>

## Inventory of Railway Equipment

On Hand Dec. 31, 1965

<b>Motive Power Equipment</b>	Diesel electric units	2,094
	Electric locomotives	18
	Steam generator units	106
	Booster units	12
	<b>Total</b>	<b>2,230</b>
<b>Freight Equipment</b>	Box, flat and stock cars	71,488
	Refrigerator cars	4,756
	Gondola and hopper cars	24,198
	Caboose and other cars	2,556
	<b>Total</b>	<b>102,998</b>
<b>Passenger Equipment</b>	Coach cars	626
	Sleeping, dining, parlour and tourist	597
	Baggage, mail and express	1,206
	Other cars in passenger service	147
	<b>Total</b>	<b>2,576</b>
<b>Work Equipment</b>	Units in work service	<b>8,709</b>
<b>Floating Equipment</b>	Car ferries	6
	Steamers	11
	Barges, tugs and work	11
	<b>Total</b>	<b>28</b>

## Operated Mileage at December 31, 1965

	Owned	Leased	Trackage Rights	Total
<b>Operated Road Mileage— first main track</b>				
Atlantic Region	3,829	1	15	3,845
St. Lawrence Region (including New England Lines)	3,831	7	18	3,856
Great Lakes Region	3,293		16	3,309
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
<b>Total</b>	<b>24,265</b>	<b>53</b>	<b>247</b>	<b>24,565</b>
Lines in Canada	22,672	36	127	22,835
Lines in United States	1,593	17	120	1,730
<b>Operated Mileage—all tracks</b>				
First main track	24,265	53	247	24,565
All other main lines	1,179		82	1,261
Spurs, sidings and yard tracks	7,212	9	1,701	8,922
<b>Total all tracks</b>	<b>32,656</b>	<b>62</b>	<b>2,030</b>	<b>34,748</b>

## Statistics of Rail-Line Operations

		1965	1964	% Increase or (Decrease)
<b>Train Miles</b>	Freight service	38,978,560	38,240,893	1.9
	Passenger service	19,842,789	18,348,086	8.1
	Work service	1,388,032	1,546,532	(10.2)
	<b>Total Train Miles</b>	<b>60,209,381</b>	<b>58,135,511</b>	<b>3.6</b>
<b>Locomotive Miles</b>	Freight service	39,317,955	38,588,651	1.9
	Passenger service	17,720,590	16,354,821	8.4
	Switching service—Road and yard	18,992,347	18,157,466	4.6
	Work service	1,655,831	1,787,492	(7.4)
<b>Total Locomotive Miles</b>	<b>77,686,723</b>	<b>74,888,430</b>	<b>3.7</b>	
<b>Car Miles</b>	<b>Freight:</b>			
	Loaded	1,287,931,072	1,265,929,716	1.7
	Empty	819,787,190	804,111,089	1.9
	Caboose	40,831,886	40,214,042	1.5
		<b>2,148,550,148</b>	<b>2,110,254,847</b>	<b>1.8</b>
	<b>Passenger:</b>			
	Coach and combination	52,200,423	47,304,522	10.3
	Sleeping, parlour and observation	57,385,661	51,201,562	12.1
	Dining	15,004,060	13,118,144	14.4
	Motor unit	4,175,168	3,952,648	5.6
Other (baggage and express, etc.)	85,118,229	79,914,425	6.5	
	<b>213,883,541</b>	<b>195,491,301</b>	<b>9.4</b>	
<b>Work Service</b>	<b>2,786,107</b>	<b>2,651,373</b>	<b>5.1</b>	
<b>Total Car Miles</b>	<b>2,365,219,796</b>	<b>2,308,397,521</b>	<b>2.5</b>	
<b>Ton Miles</b>	Gross ton miles—all services (excluding passenger cars on passenger trains)	101,051,792,000	97,772,640,000	3.4
	Net ton miles—all services	46,629,091,000	44,983,381,000	3.7
<b>Average Miles of Road Operated</b>		<b>24,612.60</b>	<b>24,697.15</b>	<b>(0.3)</b>
<b>Freight Traffic</b>	Freight revenue	\$ 638,780,344	603,061,151	5.9
	Tons carried—Revenue freight	99,204,609	92,632,736	7.1
	Ton miles—Revenue freight	46,130,503,687	44,516,285,706	3.6
	Train hours in freight road service	1,687,685	1,651,422	2.2
	<b>Averages per Mile of Road:</b>			
	Freight revenue	\$ 25,953	24,418	6.3
	Train miles	1,584	1,543	2.3
	Total freight train car miles	87,295	85,445	2.2
	Ton miles—Revenue freight	1,874,264	1,802,487	4.0
	Ton miles—All freight	1,894,521	1,821,400	4.0
	<b>Averages per Loaded Car Mile:</b>			
	Freight revenue	¢ 49.6	47.6	4.2
	Ton miles—All freight	36.2	35.5	2.0

## Statistics of Rail-Line Operations (continued)

		1965	1964	% Increase or (Decrease)	
<b>Freight Traffic (continued)</b>	<b>Miscellaneous Averages:</b>				
	Revenue per ton	\$ 6.44	6.51	(1.1)	
	Revenue per ton mile	¢ 1.385	1.355	2.2	
	Miles hauled per revenue ton	465.0	480.6	(3.2)	
	Cars per train—loaded	32.8	32.9	(0.3)	
	Cars per train—empty	21.0	21.0	—	
	Gross load—Freight trains (tons)	2,582	2,549	1.3	
	Net load—Freight trains (tons)	1,194	1,175	1.6	
	Gross ton miles per freight train hour	59,638	59,034	1.0	
	Train speed—Miles per hour	23.1	23.2	(0.4)	
Diesel unit miles per serviceable day (excluding stored)	254	246	3.3		
<b>Passenger Traffic</b>	Passenger services revenue	\$ 58,340,349	51,817,902	12.5	
	Revenue passengers carried	17,414,270	15,500,649	12.3	
	Revenue passenger miles	1,750,906,364	1,613,350,069	8.5	
	<b>Averages per Mile of Road:</b>				
	Passenger services revenue	\$ 2,370	2,098	13.0	
	Train miles	806	743	8.5	
	Total passenger train car miles	8,690	7,916	9.8	
	Revenue passenger miles	71,139	65,325	8.9	
	<b>Averages per Car Mile—Passenger Services:</b>				
	Passenger services revenue	¢ 45.8	45.4	0.9	
	Revenue passenger miles	13.7	14.1	(2.8)	
	<b>Miscellaneous Averages—Passenger Services:</b>				
	Revenue per passenger	\$ 3.35	3.34	0.3	
	Revenue per passenger mile	¢ 3.332	3.212	3.7	
	Average passenger journey (miles)	100.5	104.1	(3.5)	
Percent on time arrival—selected principal trains	76.1	78.3	(2.8)		
Diesel unit miles per serviceable day (excluding stored)	445	419	6.2		
<b>Operating Results</b>	Total operating revenues per mile of road	\$ 35,358	33,303	6.2	
	Total operating expenses per mile of road	\$ 34,766	32,857	5.8	
	Net railway operating income per mile of road	\$ 592	446	32.7	
<b>Revenue Tonnage Carried (by classes of commodities)</b>		1965	1964	Increase or (Decrease)	
				Tons	%
	Agricultural products	16,134,162	17,589,680	(1,455,518)	(8.3)
	Animals and animal products	711,260	660,178	51,082	7.7
	Mine products	34,344,795	31,340,359	3,004,436	9.6
	Forest products	10,877,267	10,340,006	537,261	5.2
	Manufactured and miscellaneous	36,343,216	32,166,299	4,176,917	13.0
	Total carload freight	98,410,700	92,096,522	6,314,178	6.9
	All less than carload freight	793,909	536,214	257,695	48.1
	<b>Grand Total</b>	<b>99,204,609</b>	<b>92,632,736</b>	<b>6,571,873</b>	<b>7.1</b>

## 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	¢	
1941	\$308.8	\$299,230	\$243,766	\$55,464	\$ 1,714	\$57,178	\$53,162	\$ 4,016	27,200	.881	1,762	2.065	95,362
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	1,751	3.332	93,438*

\* Based on a new method of counting effective January 1, 1963.



# CANADIAN NATIONAL

## CN 353321

PLATE  
C

CAPY.	160000	EX. W.	10-6	N. 14-3
LD. LMT.	160300	E. W.	8-11	N. 14-11
LT. WT.	59700	I. L.	50-6	
BLT.	12-64	I. W.	9-2	
		I. H.	10-11	
NEW	ZB 12-64	CU. FT.	5082	

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