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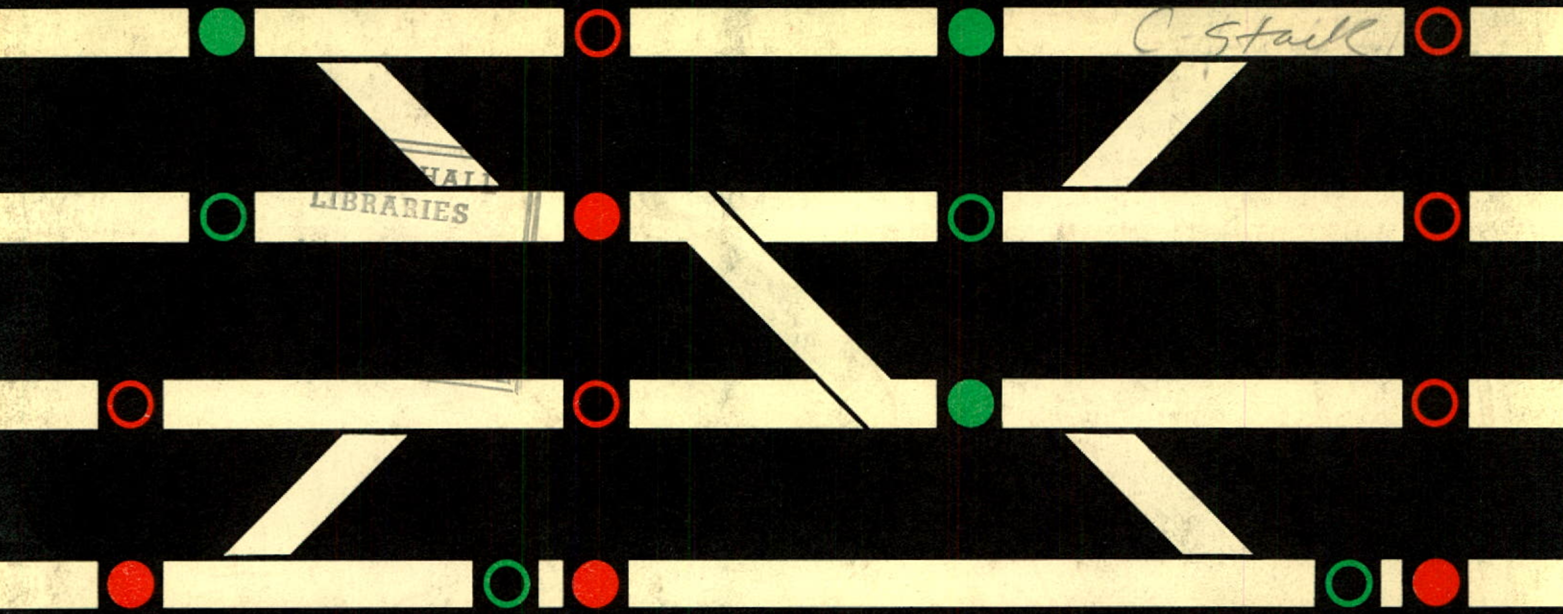
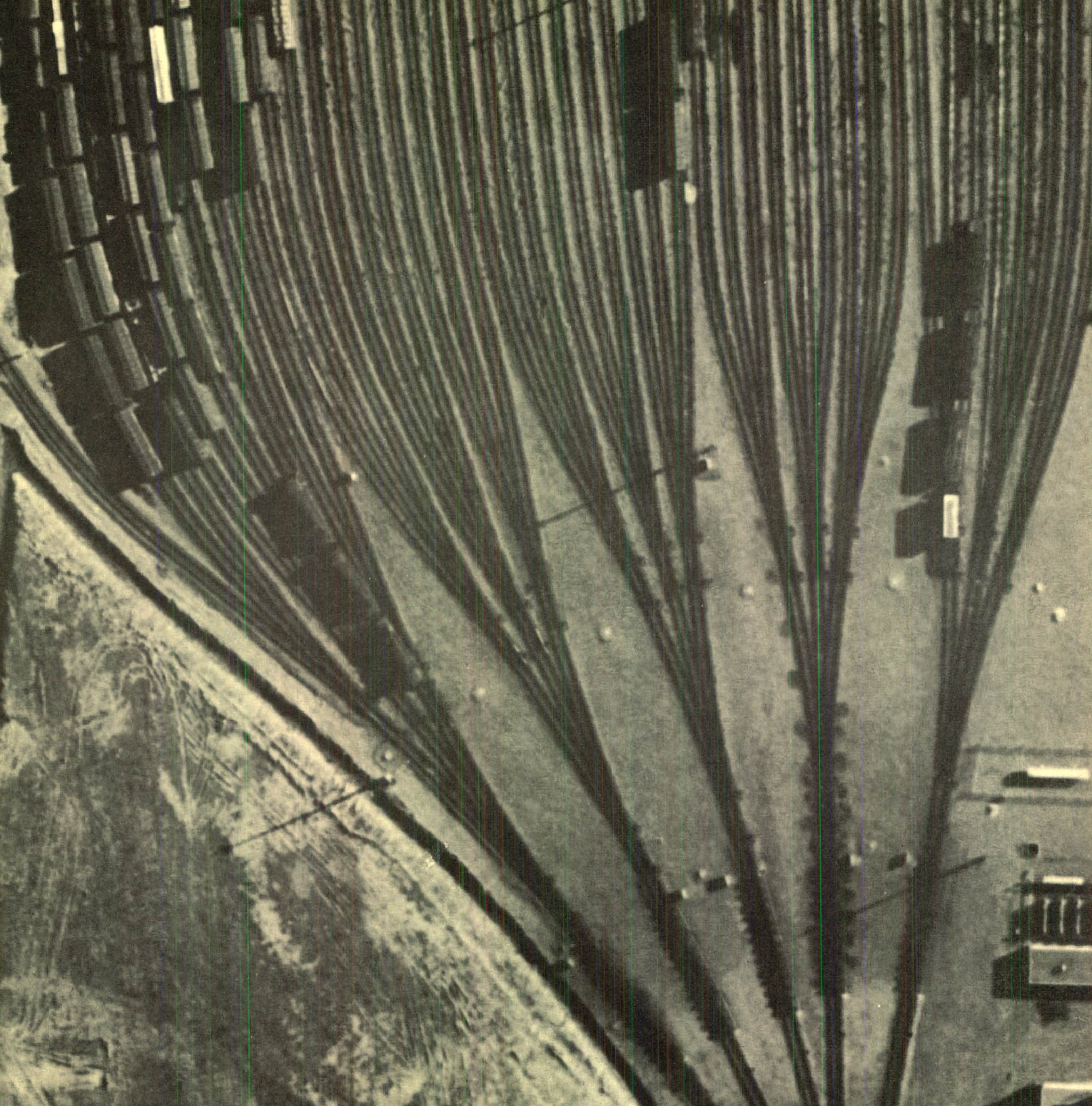


CN

Annual Report 1962



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 1962.

Copies of the 1962 Annual
Report in French may be
obtained, upon request, from:
The Secretary,
Canadian National Railways,
Box 8100, Montreal, Que.

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Annual Report 1962

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 1962.

Financial Review

The upward trend in Canada's economy, which continued throughout most of 1962, stimulated a higher potential within the transportation market. Canadian National aggressively pursued its share of the improved potential and achieved the highest volume of business, in terms of revenue ton miles, in any of the five years since 1957. Revenue ton miles were 35.6 billion, an increase of 2.5 percent over 1961.

Railway operating revenues reached $738.3 million, an increase of $28.0 million over 1961. At the same time, operating costs rose by $16.7 million, to $738.9 million, leaving a net operating loss of $0.6 million, a reduction of $11.3 million from 1961. After adding other income, which at $14.1 million was substantially improved, a surplus, before interest on long-term debt, of $13.6 million was recorded. However, this surplus fell $48.9 million short of the $62.5 million required for the interest on long-term debt. At $48.9 million, the deficit was $18.4 million less than in 1961.

The System Operating Budget, adopted at the first of the year, forecast a deficit of $48.3 million. During the course of the year, costs totalling $11.2 million, which were not anticipated in the budget, were incurred due to wage increases, additional pension charges and material price increases. Nevertheless, the actual deficit was held to a figure which exceeded that budgeted for by only $0.6 million.

Operating Revenues

Freight revenues for the year totalled $529.3 million, an improvement of $15.4 million or 3 percent over 1961. Revenue per ton mile rose 0.5 percent and tonnage increased 3.1 percent. Principal contributors to increased tonnage were the manufacturing industries (particularly motor vehicles) and mining and forest product industries. On the other hand, less grain was carried in 1962 than in 1961 due to a reduction in export movements.

Included in freight revenues is $9.5 million related to the Freight Rates Reduction Act. This act required reduction, for certain classes of traffic, of the full effect of a 17 percent freight rate increase authorized by the Board of Transport Commissioners in 1958. The act expired April 30, 1962, and CN's share of the indemnification payments from the first of the year to that date amounted to $3.0 million. Legislation was introduced in the House of Commons to extend the act for another year and the railways agreed to maintain the level of rates inherent in the proposed legislation. Payments due CN for carrying traffic at the reduced rates from April 30 to the end of the year amounted to $6.5 million, making a total of $9.5 million for the full year.

Also included in revenues is $30.2 million representing Canadian National's share of Interim Payments related to the recommendations of the Royal Commission on Transportation. At year end, payment of all but $2.5 million of the total had been received.

Payments were also received under the Maritime Freight Rates Act which reduces rates to shippers on traffic moving within the Atlantic Provinces and west to Levis, Que., and under the East-West Bridge Subsidy through which reduced rates are provided for certain traffic moving between Eastern and Western Canada.

The following table compares subsidy payments in 1961 and 1962, including those related to marine services to cover the net cost of Newfoundland and Prince Edward Island steamship and ferry services operated by CN as agent for the Federal Government:

	1962	1961	Increase or (Decrease)
	(Millions of Dollars)		
Freight Rates Reduction Act	$ 9.5	$10.7	$(1.2)
Maritime Freight Rates Act	10.9	10.0	0.9
East-West Bridge Subsidy	3.2	3.5	(0.3)
Interim Payments	30.2	27.9	2.3
Newfoundland and P.E.I. Steamship Services	16.6	14.6	2.0
Total	$70.4	$66.7	$ 3.7

Express revenues were $47.0 million, an increase of $3.7 million, or 8.5 percent over 1961, due in large part to increased business as a result of a prolonged strike in the trucking industry in Ontario and Quebec.

Piggyback revenues rose 27 percent to $8.3 million, resulting from additional traffic stimulated by the trucking strike and a higher volume of long-haul traffic between Eastern and Western Canada.

Telecommunications revenues from commercial services reached a new high of $36.7 million, an increase of $3.8 million over 1961.

Operating Expenses

The increase of $16.7 million in railway operating expenses was due principally to additional wage, pension and depreciation costs. Cost of wage increases amounted to $10.2 million, while pension charges to railway operating expenses increased by $3.7 million to $33.0 million. Depreciation charged to rail operations in 1962 was $93.4 million, up $3.0 million from 1961 due to increased investment in depreciable road property.

Taxes for 1962 of $23.4 million represented an increase of $3.6 million over 1961 which was due mainly to increased municipal and provincial taxes. The total includes $5.2 million for unemployment insurance, $15.7 million in Canadian provincial and municipal and state taxes, and $2.5 million in payments under the U.S. Railroad Retirement Act.

Equipment and joint facility rents were $3.1 million, up $2.8 million from 1961. Most of the increase was in equipment rentals resulting from a higher demand for cars during peak traffic periods. Canadian National made greater use of foreign and private line equipment to meet its requirements, and since fewer CN cars were available for rental, receipts for the use of CN equipment by other railroads were lower.

Interest on Long-Term Debt

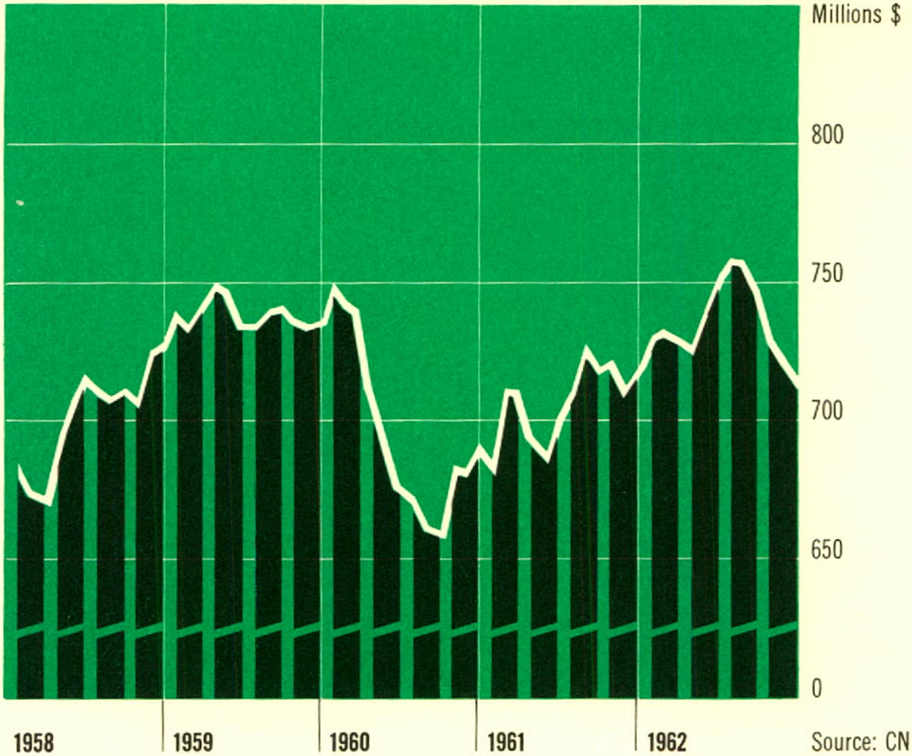
Net interest on long-term debt of $62.5 million was the same as in 1961. The effect of a $5.2 million decrease in interest-bearing debt applicable to CN operations was offset by a slightly higher interest rate. The effective interest rate on the debt outstanding at the end of 1962 was 4.4 percent, 0.1 percent up from that at the end of 1961.

Capital Expenditures

Capital expenditures in 1962 were the lowest since 1955. They amounted to $113.6 million, which was $19.1 million below the approved Capital Budget and $3.6 million below expenditures in 1961. They were financed entirely by self-generated funds from depreciation and amortization and from the sale of preferred stock. Capital expenditures in 1962 and 1961, by major categories, were as follows:

	1962	1961
	(Millions of Dollars)	
Road Property	$ 55.3	$ 64.4
Large Terminals	10.3	13.3
Telecommunications Facilities	11.7	19.2
Branch Lines	5.6	1.3
Hotels	1.8	1.8
Equipment	28.8	11.9
	113.5	111.9
Investment in Affiliated Companies	0.1	5.3
Total	$113.6	$117.2

Operating Revenues Seasonally Adjusted at Annual Rates



Development

Research Canadian National maintained its search for new and improved methods of transportation through a broad research and development program. This program, while directed primarily towards improving the efficiency and competitive position of the railway, also makes a substantial contribution to Canada's transportation industry as a whole. Among the more important projects continued in 1962 was the development and testing of equipment for the handling and transportation of forest products, including open-top box cars for wood chips, special cars for pulp-wood and lumber, and cars with high capacity cushioning devices for newsprint. Other research projects involved mechanical refrigerator cars, protective coatings for equipment, improved lubricating oils for diesels, electronic weighing of cars in motion, containerization, greater utilization of the freight car fleet, and cost research.

Branch Lines The first section of the 430-mile Great Slave Lake Railway, being built by CN for the Federal Government, went into operation in 1962. By the end of October, track had reached Manning, Alberta, a distance of 56 miles, and rail grain shipments began moving out of this northerly agricultural area. At year-end, 73.5 miles of track-laying had been completed, while clearing, grading, bridge and trestle work progressed on the rest of the right-of-way.

Also in Alberta, a 23-mile rail extension was constructed from Whitecourt to Windfall to carry sulphur shipments from the Windfall Gas Fields.

Grading was almost completed and track-laying two-thirds completed on the 61-mile branch line to the Matagami Lake region in Northern Quebec, scheduled to open in 1963 to serve new zinc and copper mines.

Construction was started on an eight-mile rail extension from Chisel Lake to a new mining development at Stall Lake in Northern Manitoba.

Transportation facilities were completed to serve the International Minerals and Chemical Corporation's extensive new potash mining development on CN's main line at Yarbo, Sask. Special handling and operating methods were developed to transport the potash concentrate with maximum efficiency.

Preparatory work was undertaken for the construction of a 15-mile branch line from Nepisiguit Junction, near Bathurst, N.B., to a zinc, lead and copper mining development of the Brunswick Mining and Smelting Company.

Acting as agent for the Federal Government, Canadian National made a survey report on a 57-mile line in the Gaspé region of Quebec, between Matane and Ste. Anne des Monts.

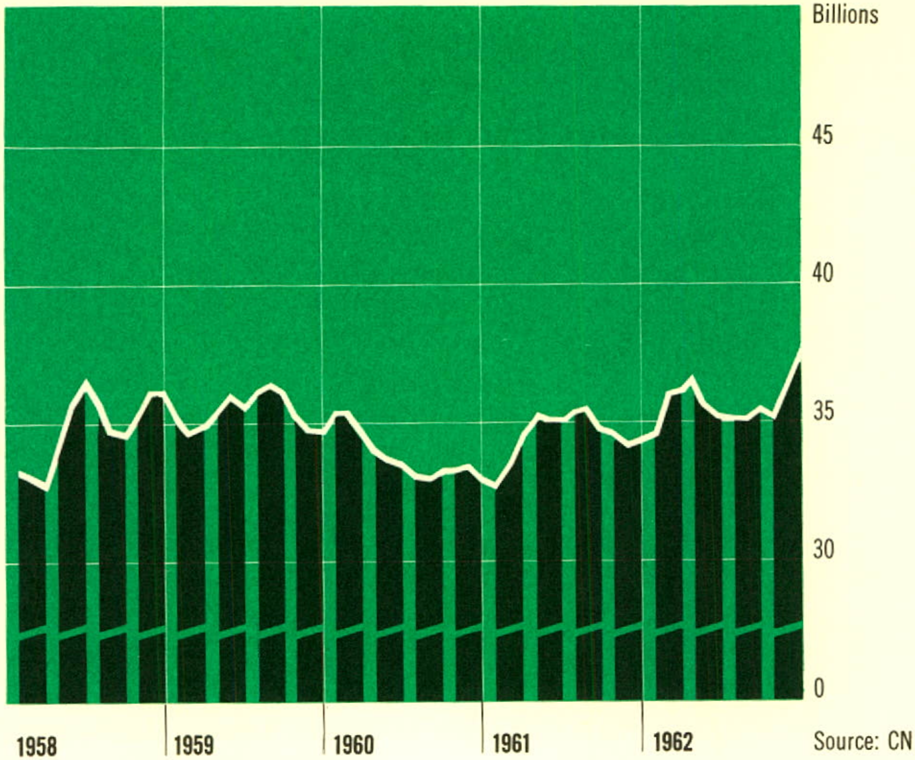
Real Estate

CN continued to encourage private interests to participate in the redevelopment of railway real estate properties in 1962. Under this program, CN promotes the redevelopment of specific land holdings, while at the same time maintaining an active interest in receiving proposals for the more profitable use of any other railway property.

The largest single project under this program is the redevelopment of CN property surrounding Central Station in Montreal. Place Ville Marie, a major phase, was completed in 1962. It occupies that portion of the terminal area to the north of Dorchester Boulevard and it embraces the 42-storey Royal Bank Building and a complex of business, shopping and entertainment facilities. Underground passageways link Place Ville Marie with buildings on the south side of Dorchester which include Central Station, the Queen Elizabeth Hotel, the International Aviation Building, CN Headquarters Building and the Terminal Centre Building. Studies are under way covering the development of the remaining portion of the area, located south of Lagauchetiere Street, and proposals from private developers have been invited.

In Moncton, a new terminal building for Atlantic Region and Maritime Area headquarters offices was completed as part of the redevelopment of 26 acres of railway property in the downtown area. A new station will be completed in 1963. The project is being carried out by private developers and it involves, besides the new railway facilities, a commercial and business centre. Meanwhile, work proceeded on a similar, but smaller, development at Campbellton, N.B., in which a new station and offices will be provided for the railway.

Revenue Ton-Miles Seasonally Adjusted at Annual Rates



The first phase of a renewal program was completed at London, Ont., with the opening of a combined railway station and office building. During 1963 work will proceed on a 104-unit motor hotel and a restaurant.

In Western Canada, proposals were invited for the development of the terminal area at Edmonton, while at Saskatoon agreement in principle was reached with the city for the removal of railway facilities from the downtown area to make way for a redevelopment program.

Industrial Development

Firms planning new plant locations continued to use the technical and consulting services provided by the System's industrial development officers. Besides important new developments of mineral and forestry resources, there was substantial growth in the number and variety of manufacturing operations in industrial parks served directly by CN trackage. A total of 422 new manufacturing plants and warehousing and distribution facilities were established in locations served by CN freight services. Of these, 232 required direct service by private sidings. There were 32 miles of new industrial trackage and private sidings constructed in 1962.

Operations

Yards

With the opening in September of Symington Yard, St. Boniface, Man., the third of four electronically-controlled hump classification yards was completed. The first two yards were opened previously at Moncton and Montreal, while the fourth yard, under construction at Toronto, is scheduled to go into operation in 1965. Symington Yard replaces four flat yards in the Winnipeg area and, like the other new yards, employs the most advanced equipment and methods to classify and despatch freight trains.

A flat-type classification yard, known as "Sarcee Yard", was constructed to replace two outdated yards at Calgary, and to open up a new industrial area in co-operation with the city. In Newfoundland, construction on a new yard at Corner Brook neared completion, and the rebuilding of the existing yard at St. John's was continued.

Signals and Radio Further installations of Centralized Traffic Control were made in 1962. CTC is a centrally-controlled signal system which expedites the handling of trains and increases the capacity of single track operation. At year-end, 2,704 miles of main line track were equipped with CTC.

Application of radio communications to train and yard operations continued throughout the year. With minor exceptions, trains operating on all principal traffic routes on the System were equipped with "end-to-end" radio communications.

Freight Services

New services, equipment, and other improvements were introduced in Canadian National's rail and road freight operations to adapt them to the new and changing demands of the transportation market.

Sales During 1962 CN's comprehensive sales program was broadened and intensified. The management sales training program, started in 1961, was expanded to include senior line personnel. The program is designed to equip sales and management personnel with the knowledge and techniques required to serve the total distribution requirements of industry today. Significant new sales tools, including mechanically-processed freight sales statistics, were introduced to assist the sales organization in analyzing market demands.

In support of the sales effort, a national advertising campaign, entitled "CNgineering", was launched. Through the use of specific examples, the campaign illustrates to industry how Canadian National can assist customers in improving their distribution methods through specialized equipment design, modern pricing and technical assistance on materials handling and packaging problems.

Incentive Rates Incentive carload freight rates introduced in Ontario and Quebec in 1961 were extended to cover a broader cross-section of Central Canada. These rates encourage capacity loading of freight cars which results in greater rail efficiency and permits the shipper to gain the benefits of lower costs.

Services A new freight train, providing faster delivery of shipments from Western Canada to Toronto and Montreal was inaugurated. A counterpart to the east-west "Highballer" introduced in 1961, the new service improved the previous schedule from Vancouver by 24 hours.

A new freight car ferry service, known as "Aquatrain", was inaugurated to link CN's railhead at Prince Rupert, B.C., with Alaska. The year-round ferry service transports rail cars to and from the Alaska Railroad terminal at Whittier. It shortens the water voyage from the U.S. West Coast to Alaska by 600 miles and reduces overall transportation costs on shipments from the East and Midwest United States.

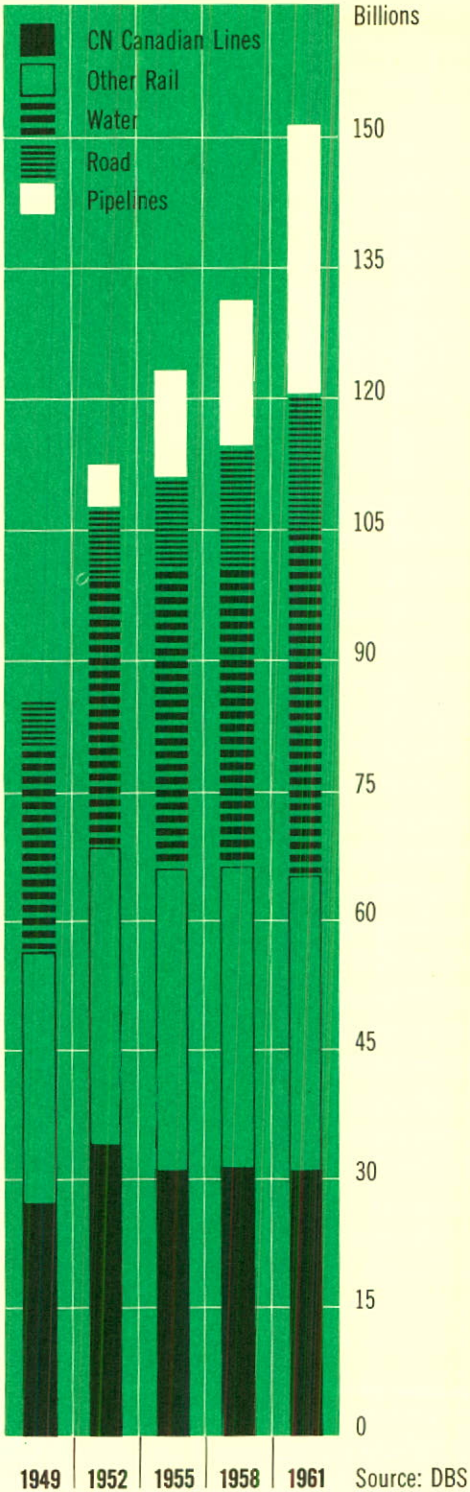
Plan I piggyback in which commercial trailers are carried by the railway, was extended to include service from CN lines to points on the Northern Alberta Railways. Plan II (railway-owned trailers) was also expanded while under Plan IV, the movement of household goods in privately-owned containers on leased railway cars was established between Halifax, Ottawa, Vancouver and Victoria.

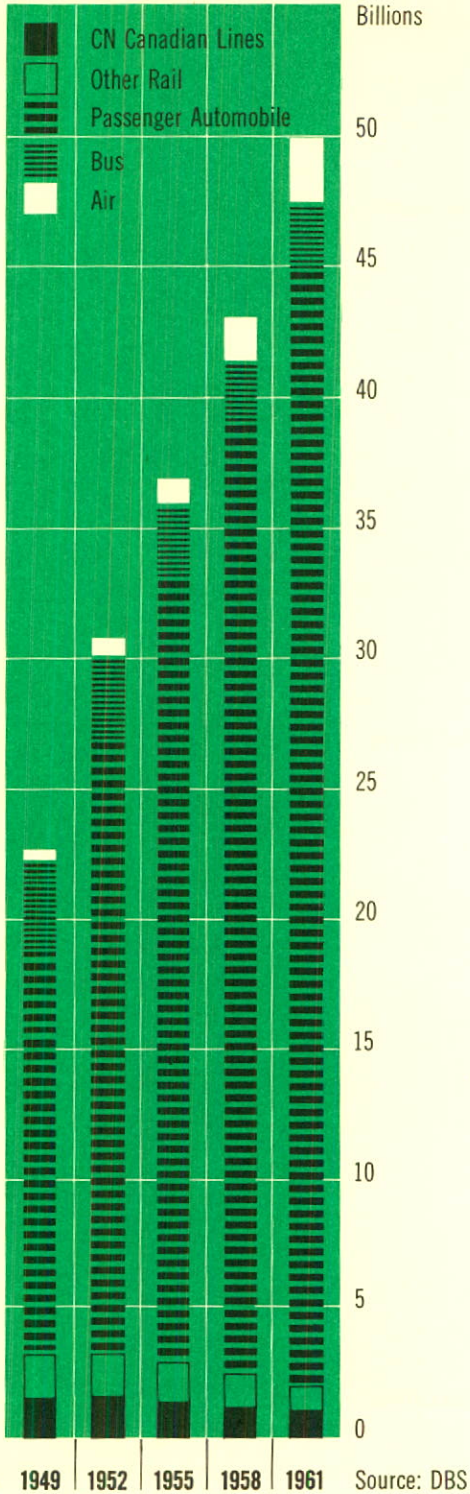
Equipment CN bought 1,617 new freight cars of various types in 1962, most of them specifically designed to meet the requirements of particular industries. Included in the order were 150 tri-level automobile transporters, acquired following a successful market test with 20 leased transporters; 300 covered hopper cars for transporting dry flow commodities; 500 heated box cars to serve canning and beverage industries, and 500 box cars, 50½ feet in length, for carrying lumber.

Road-Rail Co-ordination Further steps were taken in 1962 toward the development of a new Express Freight service for package and LCL (less than carload) shipments. Creation of the new service on a System basis involves the integration of express and LCL freight operations on the one hand, and the establishment of master agencies (also known as railheads) on the other. Integration of express and LCL freight operations has been going on gradually at points across the System, while the new master agency concept is being tested in pilot operations in the Atlantic and Mountain regions in 1963. Under the master agency plan, the function of numerous wayside freight sheds and stations is transferred to centrally-located terminals at which highway pickup and delivery, accounting, billing and other work is performed. In effect, the master agency plan is a refinement of the railhead principle which was developed to take full advantage of the benefits from co-ordinated road and rail operations, with trains handling the long haul between central points and highway vehicles covering the short haul to and from customers, wayside sheds and stations. Ultimately, the operation of Express Freight under the master agency concept will provide a low-cost, flexible service for shippers by co-ordinating the use of piggyback, rail and highway transport. The master agency plan is also a means of continuing service to the public in cases where unprofitable branch lines must be abandoned.

Trucking Subsidiaries In late December, Canadian National Transportation Limited completed the purchase of the capital stock of Midland Superior Express Limited, and Husband Transport Limited. These transactions had been held in suspension and were completed following the withdrawal of an appeal before the Quebec Court of Appeal by the Quebec Trucking Association and other parties. The appeal was against judgments by the Quebec Transportation Board authorizing

Intercity Revenue Ton-Miles (left) and Intercity Passenger Miles (right)





CNTL to acquire the two companies. CN now has an investment of $15.2 million in eight wholly-owned trucking companies and two associated terminal companies. The net operating revenues of these companies for the full year 1962 was $782,000, after provision for depreciation. This represents a return of 5.1 percent on the total investment.

Marine Services A new passenger-motor vehicle ferry, the M.V. "Confederation", was placed in service in May, on the Northumberland Strait between Borden, P.E.I., and Cape Tormentine, N.B. The M.V. "Taverner", a passenger-cargo coastal vessel, was added to the Newfoundland services in July. Both vessels are operated by Canadian National for the Department of Transport.

Passenger Services

Revenues from passenger services increased in 1962 to reverse a downward trend which had persisted since late 1957. Combined rail and sleeping, dining and parlor car revenues were $44.0 million compared with $43.4 million in 1961. Among developments contributing to the higher revenues were an experimental fare plan on lines east of Montreal; improved services in Southern Ontario; additional business stimulated by the Seattle World's Fair, and the popularity of the All-Inclusive Fare Plan.

Fares and Ticketing The experimental Red, White and Blue Fare Plan was introduced on May 1, for one year between points in Quebec, New Brunswick, Nova Scotia and Prince Edward Island. Representing a departure from traditional railway pricing, which is based on standard per-mile rates, the new scheme relates prices to high and low traffic patterns and to distance. The lowest fares apply during periods of low travel demand and the highest fares during peak and holiday periods. There are three levels of fares, bargain, economy and standard, which are identified by Red, White and Blue tickets respectively. An additional charge is made for accommodation in sleeping cars which includes certain complimentary meals on specific trains. In each month from May to December, substantial increases in traffic and revenues were recorded in the territory covered by the new fare plan. It was decided, therefore, to maintain the plan beyond April 30, 1963, and to extend it to include Newfoundland. At the same time, traffic and market studies were undertaken to determine how and where the same fare principle might be extended to other areas.

A ticket-by-mail service was introduced to simplify ticket purchasing for customers. Tickets ordered by telephone are mailed, with accompanying invoice, to the caller.

Passenger service centres were established in Vancouver, Toronto, Montreal, Chicago and New York to expedite the handling of tickets and reservations.

Schedules In April, passenger trains running west of Toronto to points in Southwestern Ontario were placed on faster schedules. The improvement was made possible by transferring express and mail shipments from passenger trains to merchandise trains operating on separate schedules designed specifically to serve commerce and industry.

A reduction of one hour and 45 minutes was made in the running time of the International Limited from Chicago to Toronto, while improvements were also made in the schedules of Railiners operating between Moncton and Truro, and between North Sydney and Truro.

Telecommunications

CN Telecommunications experienced another year of substantial growth and record high revenues in 1962. New communications systems were introduced, while existing services, principally private wire facilities and Telex, were expanded to keep pace with the growing demand for them. More than 29,000 carrier telephone channel miles, and 49,000 carrier telegraph channel miles were added during the year.

Telex exchanges were opened in eight additional centres, to bring to 61 the total number of exchanges serving 312 Canadian communities. The number of subscribers increased by 700, raising the total to 4,600.

Construction began on a new Canadian National-Canadian Pacific microwave radio system between Montreal and Vancouver. Designed as a trunk route to serve all principal centres across the country, the system will help to maintain the competitive position of CN-CP in the communications field. Initially, the system will be capable of carrying 600 telephone channels which may be used to transmit telegraph, facsimile, broadcast, data and other forms of communications. The system is designed so that additional channels, including television, may be added in the future. The project will be in operation January 1, 1964.

In April a high capacity microwave system between Peace River, Alta., and Hay River in the Northwest Territories went into operation. A joint project of CN Telecommunications and the Alberta Government Telephones, the system serves as the connecting link between the entire western section of the Northwest Territories, including defence installations of the Arctic region, and the Canadian and world-wide communications networks. With the completion of the microwave to Hay River, telephone and telegraph service was extended by wire line to Yellowknife and Fort Smith and by radio to Pine Point, Fort Resolution, and the Inuvik area. Other service extensions into the north included Telex to Fort St. John, B.C., and Whitehorse, Y.T., and the CBC radio network to Cassiar, B.C., Haines Junction, Y.T., Yellowknife, Hay River and Fort Smith, N.W.T.

In Newfoundland public telephone service was extended to the Great Northern Peninsula and automatic telephone exchanges were installed to serve the communities of St. Anthony, Come-by-Chance and Norris Arm, while the exchange at Lewisporte was enlarged. Twenty-five smaller communities, some of which were already being served by submarine cables, were afforded communications by short-wave radio.

A joint CN-CP Telecommunications Deskfax service was established in Toronto in April. A facsimile operation, the service enables a customer to send and receive telegrams over a combination transmitter and receiver installed in his own office.

Installation of a new nation-wide system to provide instant stock quotations over Telex from the Toronto Stock Exchange was started during the year, and will be completed in 1963.

Arrangements were completed with Canadian Overseas Telecommunications Corporation to interchange cablegrams, providing CNT with a direct outlet to all points in the world served by COTC.

Hotels

Financial Results Hotel income was $2.3 million in 1962, an increase of $0.7 million over 1961. Contributing to this increase were higher revenues at Jasper Park Lodge and the newly-renovated and enlarged Nova Scotian in Halifax, generally improved control over operating expenses, and a higher return from the Queen Elizabeth Hotel. The net result in hotel income (after depreciation and before interest) was as follows:

	1962	Income or (Loss) 1961
Canadian National Hotels Ltd.	$ 273,053	$ (97,212)
The Queen Elizabeth Hotel	2,012,918	1,718,303
Total Hotel Income	$2,285,971	$1,621,091

Improvements At the Nova Scotian, a new lounge went into operation, a parking lot was provided for guests and work proceeded on the updating of facilities and furnishings in the original part of the hotel. At year-end, approximately half of the guest rooms at The Newfoundland, St. John's, had been refurnished and this project will continue during 1963. Furnishing and redecorating work was also carried out at the Chateau Laurier, Ottawa; The Macdonald, Edmonton, and The Fort Garry, Winnipeg. Combination radio and television sets were installed at The Bessborough, Saskatoon, and The Newfoundland, early in 1963. Under the general rebuilding program at Jasper Park Lodge, construction started on two 10-room and two 30-room cabins in 1962, and they will be completed for the 1963 season. These and other structures are being built to replace outdated accommodation. The resort was host to a record number of guests during the 1962 season.

Introduction of improved operating techniques, particularly in the area of cost controls, a staff training program, and a comprehensive sales program by the newly-developed sales branch, were among other more important accomplishments during the year.

A survey, made with the assistance of Hilton of Canada Ltd., of the facilities, services and operations of all the CN operated hotels was completed during the year and led to the adoption of an accelerated program of modernization of a number of the hotels to start in 1963.

Personnel and Labor Relations

Negotiations

An increasing measure of co-operation and understanding between management and employees in negotiating new contracts and working out problems of mutual concern was exhibited during 1962. The most significant example of this development was in the contract proceedings between the railways and 15 unions representing non-operating employees, including 60,000 CN employees. Despite complicated issues centering on questions of work security and revisions in seniority and related rules, the parties reached agreement through acceptance of a unanimous report of the conciliation board. Subsequently, a master agreement was negotiated which defined the broad terms of settlement including a 4 percent wage increase over a two-year period and the establishment of a work security program, requiring the payment of one cent an hour into a fund. Specific provisions of the work security plan and revision of seniority and related rules were, at year-end, being worked out by a joint management-union committee established under the terms of the master agreement.

Many months of negotiations with the Canadian Brotherhood of Railway, Transport and General Workers resulted in the consolidation of three agreements covering clerical, express, freight shed and cartage employees. The new contract provides a greater measure of work security for these employees as well as creating an integrated staff for the new Express Freight service. Studies on the establishment of a classification and rate structure for employees covered by the agreement were under way at year-end. Discussions with the Brotherhood of Maintenance of Way Employees and the Order of Railroad Telegraphers also resulted in the updating of their agreements with CN. The aim of all of these contract revisions was to bring seniority and working rules into conformity with present-day operating conditions thereby enabling the railway to benefit from technological advances and improved methods of operation, while at the same time ensuring a minimum of dislocation and hardship for long service employees.

Contract settlements were reached with three unions representing train crews. Wage increases for these employees, part of which were retroactive, were: Brotherhood of Locomotive Engineers, 6½ percent over three years; Brotherhood of Locomotive Firemen and Enginemen, 4 percent in freight and yard service and 6½ percent in passenger service over three years; Brotherhood of Railroad Trainmen, 8 percent over 31 months. In each case, work rules were revised to eliminate or modify those which have become outdated in the process of changing from steam locomotive to all-diesel operation.

Besides a number of agreements re-negotiated with groups of employees in hotels and in trucking operations, significant five-year contracts were worked out with the Canadian Brotherhood of Railway, Transport and General Workers for approximately 900 employees, including unlicensed personnel and engineer officers, in Newfoundland marine services and on the

MV "Bluenose", which operates between Yarmouth, N.S., and Bar Harbor, Me.

Thus 1962 saw contract renewals with all major groups of employees on Canadian lines. CN has 178 collective agreements with 35 unions representing a total of 85,700 employees.

A settlement was reached with the U.S. Non-Operating Railway Labor Organizations June 5th, providing wage increases of 10.28 cents spread over 30 months. A U.S. Presidential Commission established to investigate a dispute over work rules governing operating employees (including CN's U.S. employees) made its report on February 28, 1962. Recommendations included gradual elimination of firemen from locomotives in freight and yard service. The U.S. railways announced their intention of implementing the various recommendations but by year-end had not been able to do so because of a series of legal actions initiated by the unions.

Employee Relations

Further attention was given to overcoming the difficulties inherent in the size, diversity and geography of the company in keeping employees informed of System activities and developments of immediate interest to them. A policy and procedures manual detailing methods and techniques of communicating to employees was produced for the guidance of System officers. While continuing use was made of existing media such as the employee magazines "Keeping Track" and "Au fil du rail", and a variety of employee letters and bulletins, new ones were developed including area newsletters and a film on important CN developments in 1962.

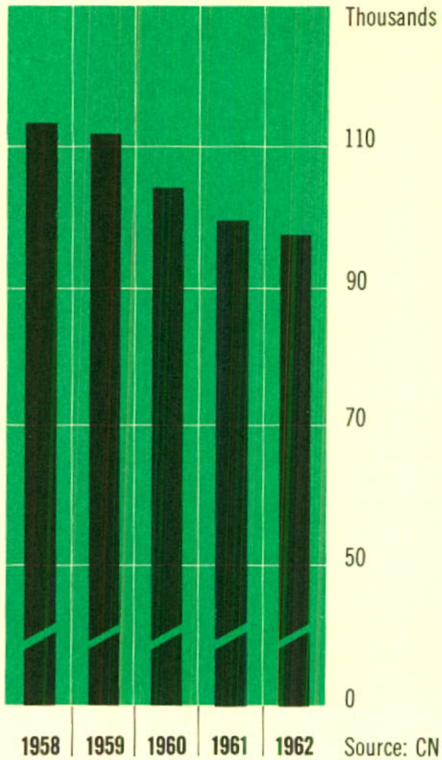
Management development and supervisory training in sales, work study, technical skills and human relations continued to receive special emphasis. There were about 62,000 enrollments in training courses during the year. Some employees were enrolled in more than one course. This training was done by a staff of 100 full-time instructors and 210 part-time instructors. In addition, a new plan was introduced to provide financial assistance to employees completing evening, correspondence or full-time educational programs related to their work.

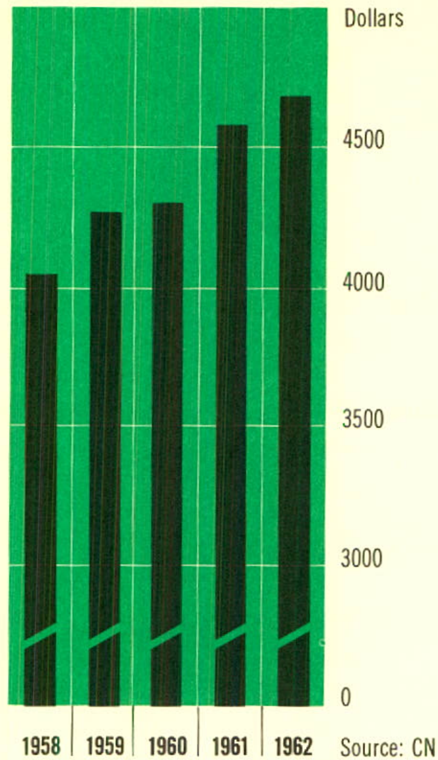
During 1962, attention was directed toward the role of French Canadians in the supervisory and management functions of the organization. A committee of the Board of Directors was formed to examine the subject and determine whether the objectives of current employment and promotion procedures (which are designed to provide fair and equitable opportunity for all employees and applicants) are being achieved. The study also sought to determine whether more effective measures could be taken to attract larger numbers of qualified French Canadians to join CN, and ensure that French Canadian personnel have full opportunity to enlarge their experience and qualifications for promotions to positions of greater responsibility at all levels of the organization. The study was continuing at year-end.

Pensions

The rules of the 1959 Pension Plan were amended, with effect from April 1, 1962, to provide that pensions of employees retiring thereafter would be calculated at the rate of 1¼ per cent

Average Number of Employees (left) and Average Annual Earnings per Employee (right)





for each of the first 30 years and 1½ percent for each additional year of allowable service, based on average earnings in the last 60 months—or best five consecutive calendar years—of service, whichever is greater. Previously the rate had been 1 percent for each of the first 20 years, 1¼ percent for each of the next 10 years and 1½ percent for each additional year. At the same time the employee contribution rate was increased from 5 percent to 5½ percent on earnings after March 31, 1962. Statements of the Pension Trust Funds appear later in this report. Total charges against CN earnings for pensions (excluding U.S. Railroad Retirement taxes of $2.5 million) in 1962 compared with 1961 were as follows:

	1962 (Millions of Dollars)	1961 (Millions of Dollars)	Increase
1935 and 1959 Pension Plans	$26.3	$22.6	$3.7
Pre-1935 Plans, etc. (including I.C. and P.E.I. Railways Employees' Provident Fund)	7.1	7.0	0.1
Total	$33.4	$29.6	$3.8

The increase was mainly attributable to the adoption of the improved pension rate under the 1959 Plan as was the increase from $325 million to $395 million in the System's acknowledged liability to the Pension Trust Funds in respect of past service of employees. Exclusive of payments under the U.S. Railroad Retirement Act, there was paid to pensioners and their beneficiaries, under the various Canadian National pension arrangements, a total of $35.0 million in 1962 and 29,431 individuals were receiving such payments at the year-end.

CN-CP Act Discussions were held with Canadian Pacific Railway to explore areas where co-operative measures might be undertaken.

Board of Directors His fellow Directors were saddened by the death, on November 8, 1962, of Mr. W. A. Colquhoun, who had served the Board faithfully since his appointment on October 1, 1961.

The Outlook

The foregoing report records improvements, additions and service changes to CN's complex plant and facilities. It is significant to note, as well, that the new form of administrative organization, now in its third year, has contributed to the improved sales showing and is considered to have brought a new spirit of enthusiasm throughout the System. The organizational structure, which emphasizes local responsibility, is producing more flexible operations tailored to customer demand. The Board of Directors and Management, however, feel that the true impact of the accomplishments of 1962 and prior years, which produced a major rehabilitation of the property, is obscured by the heavy burden of long-term debt. There is a marked divergence between what might be termed the "service result" and the "bookkeeping result".

During the past year much attention has been focussed on the transportation industry in general and the railways in particular. The fact that earnings of the Canadian National have not been sufficient in recent years to provide for the interest on its long-term debt has been interpreted in some quarters to mean that the System has failed in its objective to operate efficiently with due regard to sound business principles in the competitive transportation market. This, in turn, has given rise to allegations that Canadian National, in taking steps to adapt to the changing demands of the transportation market, is engaging in unfair practices in respect of the introduction of new services and rate-making techniques without regard to whether the operations involved are on a compensatory basis. Canadian National does not indulge in such practices. Such criticism and general references to the overall deficit in this context are damaging to the System's business interests. As well, they make it difficult to maintain the high morale among the officers and employees of the System that is so necessary if Canadian National is to provide the best possible service to shippers at the lowest possible cost.

For these reasons, the Board of Directors considers it necessary and desirable in the interest of the public and employees to appraise CN's current situation and to comment on its outlook.

The MacPherson Royal Commission on Transportation acknowledged that the railways are required to perform a number of operations which are uneconomic when judged by commercial standards. The Commission recommended that these burdens, the result of obligations imposed upon the railways by tradition, law and public policy, should be lifted. The main areas of such uneconomic operations involve grain traffic carried at statutory rates, certain passenger services, and thin traffic branch lines. In general, the Commission proposed an orderly rationalization of certain services and facilities, and recommended that the railways should be compensated for losses incurred for the continued operation of those services which, while uneconomic, may be deemed by the regulatory authorities to be essential to the public interest.

With respect to the capital structure of the System, submissions have been made to the Government recommending a recapitalization procedure which would make it possible to present a more accurate picture of current operations. Basically the recommendations involve a recognition of the deficiency of the depreciation reserves of the System which came about because depreciation accounting was not applied to equipment prior to 1940, to hotel properties until 1954, and to road, track structures and other physical properties until 1956 (the first year for which the Uniform Classification of Accounts incorporating depreciation accounting was prescribed for Canadian railways by the Board of Transport Commissioners). This deficiency has restricted CN's ability to finance capital expenditures from internal sources and has contributed directly to the current excessive burden of interest charges. If depreciation accounting, as it is now accepted and practised, had been in effect in prior years, large additional sums of cash would have been available to CN to finance, for the most part, its rehabilitation programs, and the need to incur interest-bearing debt for that purpose would have been substantially reduced.

Against the background of the recommendations of the MacPherson Royal Commission on Transportation, and the proposals for a revision of the capital structure, Canadian National has been developing long-range, integrated corporate plans. These indicate that the deficit position is by no means chronic and that a surplus position could be achieved in the foreseeable future. In fact, had the recommendations of the MacPherson Commission been in full force and effect in 1962, together with the capital revision proposals, the year-end result would have produced a modest net profit of approximately $10 million.

Canadian National is intimately associated with the future of Canada and a healthy financial and competitive environment will better enable the System to serve the nation and its people.

The Board of Directors once again takes pleasure in expressing its appreciation for the continued loyal services rendered by officers and employees throughout the System.

D Gordon

Signed on behalf of the Board of Directors

Montreal, March 14, 1963

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, Secretary of the Company
K.E.Dowd, M.D., C.M., F.A.C.S., Chief Medical Officer
C.A.Harris, Director of Public Relations
E.A.Spearing, M.B.E., Director of Investigation

Accounting and Finance
J.L.Toole, Vice-President
L.J.Mills, O.B.E., Comptroller
E.J.Denyar, Treasurer

Highway Services
F.A.Gaffney, Vice-President

Law
H.C.Friel, Q.C., Vice-President
Lionel Côté, Q.C., General Counsel
A.D.McDonald, Q.C., General Counsel

Personnel and Labour Relations
W.T.Wilson, Vice-President
T.A.Johnstone, Assistant Vice-President, Labour Relations
George Lach, Assistant Vice-President, Personnel

Purchases and Stores
E.A.Bromley, Vice-President
T.M.Pye, General Purchasing Agent

Research and Development
O.M.Solandt, O.B.E., M.D., D.Sc., Vice-President
D.F.Purves, Assistant Vice-President

Sales
A.H.Hart, Vice-President
E.A.Ryder, Deputy Vice-President
G.R.Johnston, General Sales Manager, Freight
Pierre Delagrave, M.B.E., General Sales Manager, Passenger

Transportation and Maintenance
J.W.Demcoe, Vice-President
D.M.Trotter, Assistant Vice-President

Atlantic Region
H.C.Grayston, Vice-President, Moncton
E.J.Cooke, General Manager
E.K.House, Manager, Newfoundland Area, St. John's
E.P.Stephenson, Manager, Maritime Area, Moncton
J.G.Davis, Assistant Manager, Maritime Area
C.A.Bérubé, Manager, Chaleur Area, Campbellton

St. Lawrence Region
J.A.McDonald, Vice-President, Montreal
J.E.Gauthier, General Manager
J.A.Lambert, Manager, Quebec Area, Quebec City
J.P.Blanchet, Assistant Manager, Quebec Area
J.E.Brenan, Manager, Montreal Area, Montreal
J.H.Richer, Assistant Manager, Montreal Area
J.J.F.Roberts, Manager, Champlain Area, Montreal
J.A.Pollock, Manager, Rideau Area, Belleville

Great Lakes Region
Eric Wynne, Vice-President, Toronto
W.C.Bowra, General Manager
J.H.Spicer, Manager, Toronto Area, Toronto
R.H.Menary, Assistant Manager, Toronto Area
C.J.Morris, Manager, London Area, London
G.H.Bloomfield, Manager, Northern Ontario Area, Capreol

Prairie Region
D.V.Gonder, Vice-President, Winnipeg
N.T.Walton, General Manager
J.D.Hayes, Manager, Lakehead Area, Port Arthur
L.H.B.Gooding, Manager, Winnipeg Area, Winnipeg
A.R.Williams, Assistant Manager, Winnipeg Area
H.J.Fast, Manager, Assiniboine Area, Winnipeg
E.S.Barker, Manager, Hudson Bay Area, Dauphin
A.Skinner, Manager, Saskatchewan Area, Saskatoon
A.E.Street, Assistant Manager, Saskatchewan Area

Mountain Region
G.R.Graham, Vice-President, Edmonton
W.D.McPherson, General Manager
W.B.Jackson, Manager, Edmonton Area, Edmonton
G.F.V.Middleton, Manager, Calgary Area, Calgary
R.A.Wyman, Manager, British Columbia Area, Vancouver
H.G.Wortman, Assistant Manager, British Columbia Area, Prince George

Grand Trunk Western Railroad
H.A.Sanders, Vice-President and General Manager, Detroit

Telecommunications
J.R.White, General Manager, Toronto
H.J.Clarke, 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 Hotels, Limited
Canadian National Railways (France)
Canadian National Realties, 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
The Central Counties 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
Montalta Holdings Limited
Montreal and Southern Counties Railway Company
The Montreal Stock Yards Company
The Montreal Warehousing Company
Mount Royal Tunnel and Terminal Company, Limited
The Quebec and Lake St. John Railway Company
Sydney Transfer and Storage Limited
The Toronto-Peterborough Transport Company, Limited
Wacos Holdings Limited
Yellowknife Telephone Company
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

Consolidated Balance Sheet at December 31, 1962

Assets

Current Assets	Cash	$ 50,063,093	
	Accounts receivable	80,162,420	
	Material and supplies	70,424,977	
	Other current assets	15,761,981	
	Government of Canada—Due on deficit account	9,335,454	$ 225,747,925
Insurance Fund			15,000,000
Investments in Affiliated Companies Not Consolidated			
	Trans-Canada Air Lines	242,471,000	
	Jointly operated rail and terminal facilities	48,616,893	291,087,893
Property Investment	Road	2,436,377,513	
	Equipment	1,333,945,691	
	Other physical properties	120,586,057	
		3,890,909,261	
	Less recorded depreciation	738,344,856	3,152,564,405
Other Assets and Deferred Charges	Other investments	3,678,609	
	Prepayments	2,508,520	
	Unamortized discount on long term debt	21,665,337	
	Other assets	27,867,747	
	Deferred charges	14,000,829	69,721,042
			$3,754,121,265

Auditor's Report

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

I have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1962 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my 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, 1962 and of the results of its operations for the year ended on that date according to the best of my information and the explanations given to me 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.

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

J. A. de Lalanne,
Chartered Accountant. February 28, 1963

Consolidated Balance Sheet at December 31, 1962

Liabilities

Current Liabilities	Accounts payable	$ 72,509,749	
	Accrued charges	21,260,194	
	Other current liabilities	2,445,046	$ 96,214,989
Provision for Insurance			15,000,000
Other Liabilities and Deferred Credits			28,084,224
Long Term Debt	Bonds	1,633,319,073	
	Government of Canada loans and debentures	209,026,793	1,842,345,866

Shareholders' Equity

Government of Canada	6,000,000 shares of no par value capital stock of Canadian National Railway Company	359,963,017	
	968,746,872 shares of 4% preferred stock of Canadian National Railway Company	968,746,872	
	Capital investment of Government of Canada in the Canadian Government Railways	439,267,036	
		1,767,976,925	
Capital Stock of Subsidiary Companies Owned by Public		4,499,261	1,772,476,186
			$3,754,121,265

The accompanying notes are an integral part of this Balance Sheet.

L. J. Mills.
Comptroller.

Notes to Consolidated Financial Statements at December 31, 1962

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 1962. 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 has 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: Accounts Receivable from Government of Canada

Accounts Receivable include the following items due from the Government of Canada:

(i) The Freight Rates Reduction Act expired on 30 April, 1962. Legislation to extend this Act was introduced in Parliament but had not been passed at 31 December, 1962. At the request of the

Minister of Finance, the Company continued to extend reduced rates to shippers in accordance with the terms of the expired Act. The amount estimated to be due to the Company under this arrangement and included in its accounts for the period 1 May, 1962 to 31 December, 1962 is $6,574,042.

(ii) Supplementary Estimates A for the fiscal year ended 31 March, 1963, as tabled in the House of Commons, included Vote 213a which provided $50 million for Interim Payments related to the Recommendations of the Royal Commission on Railway Problems. Appropriation Act No. 7, 1962, authorized payment of eleven-twelfths of this amount. Payment of the last one-twelfth was not authorized at 31 December, 1962. The Company has included in its accounts the amount of $2,500,000 estimated to be due to it for the month of December, 1962.

Note 4: St. Lawrence Seaway

The Company's expenditures related to the track diversion and re-arrangement of the approaches to the Victoria Jubilee Bridge necessitated by the construction of the St. Lawrence Seaway are included in Other Assets pending payment by the St. Lawrence Seaway Authority of the Company's claim, including interest, amounting to $14.0 million.

Note 5: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four per cent 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 6: Major Commitments

(a) Pension Funds:
The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding $395,000,000 for the outstanding liability in respect of prior service of active employees.

(b) Vacation Pay:
In accordance with past practice the Company has not recorded the liability for vacations earned in 1962 which will be paid in 1963.

(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 $11,766,000 First Collateral Trust Mortgage 4⅜% 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 $37,250,000 First Mortgage 4⅝% 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, 1962 Grand Trunk Western Railroad's usage was approximately 3% 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 $2,708,000 First Mortgage 3¼% 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

Consolidated Income Statement

		1962	1961
Railway Operating Revenues	Freight	$529,307,712	$513,949,260
	Switching, demurrage, etc.	18,491,545	16,007,554
	Passenger	34,331,531	34,793,498
	Sleeping, dining and parlour car, etc.	9,645,296	8,649,032
	Mail	11,030,572	11,650,454
	Express	46,963,146	43,256,496
	Telecommunications	36,706,570	32,930,780
	Other	21,645,902	21,190,099
	Interim payments—Royal Commission on Transportation	30,202,480	27,878,000
	Total operating revenues	**738,324,754**	**710,305,173**
Railway Operating Expenses	Road maintenance	165,724,315	166,739,542
	Equipment maintenance	148,450,417	147,654,575
	Sales	16,361,800	16,398,837
	Transportation	317,044,854	311,629,593
	Miscellaneous operations	6,152,519	6,369,685
	General	58,704,428	53,293,780
	Railway tax accruals	23,355,682	19,791,374
	Equipment and joint facility rents	3,088,665	270,197
	Total operating expenses	**738,882,680**	**722,147,583**
	Net Railway Operating Loss	**557,926**	**11,842,410**
Other Income	Miscellaneous rents	2,063,882	1,680,997
	Income from non-rail properties	2,593,296	1,168,553
	Hotel income	2,285,971	1,621,091
	Dividend income	239,617	299,616
	Interest income	1,935,809	1,490,865
	Miscellaneous	5,018,487	749,426
	Total other income	**14,137,062**	**7,010,548**
	Surplus or Deficit before Interest on Long Term Debt	**13,579,136**	**4,831,862**
Interest Charges	Interest on bonds	67,798,723	69,055,215
	Interest on government loans	3,770,596	1,480,367
	Amortization of discount on bonds	2,448,047	2,451,660
	Total interest on long term debt	**74,017,366**	**72,987,242**
	Less Interest on loans to Trans-Canada Air Lines	**11,518,776**	**10,511,332**
	Net interest on long term debt	**62,498,590**	**62,475,910**
	Deficit	**$ 48,919,454**	**$ 67,307,772**

Property Investment Statement

Property Investment at December 31, 1961			**$3,828,338,463**
Capital Expenditures in 1962			
New lines and diversions	$ 8,043,056		
Roadway improvements	32,933,506		
Large terminals	10,332,465		
Yard tracks and sidings	1,957,902		
Buildings	3,792,216		
Highway crossing protection	569,529		
Signals	3,370,802		
Roadway and shop machinery	2,001,692		
Other facilities	2,615,533		
Telecommunication facilities	11,688,249		
	77,304,950		
Branch Lines	5,577,981		
Hotels	1,846,787		
Equipment	28,757,943	$113,487,661	
Government of Canada net expenditure on Canadian Government Railways		1,363,994	
Properties of companies acquired		7,948,679	
Additions to property in 1962		122,800,334	
Deduction in respect of property retirements in 1962		60,229,536	62,570,798
Property Investment at December 31, 1962			**$3,890,909,261**

Recorded Depreciation Statement

Recorded Depreciation at December 31, 1961			**$ 681,880,200**
Add Provision for depreciation for the year			
Road property	$ 48,506,258		
Equipment	44,886,598		
Other Physical Properties	2,525,238	$ 95,918,094	
Recorded depreciation of companies acquired		3,782,272	
		99,700,366	
Deduct Net Charges in respect of property retirements		43,235,710	56,464,656
Recorded Depreciation at December 31, 1962			**$ 738,344,856**

Long Term Debt

	Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1961	Transactions Year 1962 Increase or Decrease	Outstanding at Dec. 31, 1962
Bonds and Debenture Stocks	3	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can.-U.S.-Stg.	$ 26,465,130	$26,465,130	
	4	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can.-U.S.-Stg.	7,999,074	7,999,074	
	2¾	Feb. 1, 1963 **a**	Canadian National 8 Year 1½ Month Bonds	Canadian	250,000,000		$ 250,000,000
	5½	Dec. 15, 1964 **b, i**	Canadian National 5 Year Bonds	Canadian	198,989,000	278,000	198,711,000
	3	Jan. 3, 1966 **c**	Canadian National 17 Year Bonds	Canadian	35,000,000		35,000,000
	2¾	Jan. 2, 1967 **d**	Canadian National 20 Year Bonds	Canadian	50,000,000		50,000,000
	4½	Apr. 1, 1967 **i**	Canadian National 6½ Year Bonds	Canadian	72,750,000	450,000	72,300,000
	5	May 15, 1968 **i**	Canadian National 9 Year Bonds	Canadian	56,400,000	600,000	55,800,000
	2⅞	Sept. 15, 1969 **e**	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
	2⅞	Jan. 16, 1971 **f**	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
	5½	Dec. 15, 1971 **i, j**	Canadian National 12 Year Bonds	Canadian	11,000	278,000	289,000
	3¾	Feb. 1, 1974 **g**	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
	2¾	June 15, 1975 **h**	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
	5	May 15, 1977 **i**	Canadian National 18 Year Bonds	Canadian	85,950,000	1,350,000	84,600,000
	4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
	5¾	Jan. 1, 1985 **i**	Canadian National 25 Year Bonds	Canadian	99,500,000		99,500,000
	5	Oct. 1, 1987 **i**	Canadian National 27 Year Bonds	Canadian	171,500,000	2,825,000	168,675,000
	4½	Sept. 15, 1979	Grand Trunk Western Note	Can.-U.S.	400,000		400,000
	5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds	Sterling	795,366		795,366
	5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds	Sterling	1,228,399		1,228,399
	5	Perpetual	Debenture Stocks—Various	Sterling	88,972	68,664	20,308
	Total Bonds and Debenture Stocks				1,673,076,941	39,757,868	1,633,319,073
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	45,571,000	12,635,244	58,206,244
	Refunding Act, 1955: Loans for Debt Redemption			Canadian	2,038,388	31,798,399	33,836,787
	Total Government of Canada Loans and Debentures				164,593,150	44,433,643	209,026,793
	Total Long Term Debt				**$1,837,670,091**	**$ 4,675,775**	**$1,842,345,866**

Note:

- **a** Callable at par on or after Feb. 1, 1961
- **b** Exchangeable on or before June 15, 1964 for 5½% bonds due Dec. 15, 1971
- **c** Callable at par on or after Jan. 3, 1961
- **d** Callable at par on or after Jan. 2, 1964
- **e** Callable at par on or after Sept. 15, 1964
- **f** Callable at par on or after Jan. 16, 1966
- **g** Callable at par on or after Feb. 1, 1972
- **h** Callable on or before June 14, 1962, at 101½; thereafter at varying redemption premiums.
- **i** Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.
- **j** Issued in exchange for 5½% bonds due December 15, 1964.

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	946,807,207	$ 21,939,665	968,746,872
	Capital investment in Canadian Government Railways	437,903,042	1,363,994	439,267,036
	Total Government of Canada	1,744,673,266	23,303,659	1,767,976,925
Capital Stock of Subsidiary Companies Owned by Public		4,499,273	12	4,499,261
	Total Shareholders' Equity	**$1,749,172,539**	**$23,303,647**	**$1,772,476,186**

Investments in Jointly Operated Rail and Terminal Facilities

		Percentage Held	Investment at Dec. 31, 1961	Transactions Year 1962 Increase or Decrease	Investment at Dec. 31, 1962
The Belt Railway Company of Chicago	Capital Stock	8.33	$ 240,000		$ 240,000
	Advances		74,512	$ 27,781	46,731
Chicago & Western Indiana Railroad Company	Capital Stock	20	1,000,000		1,000,000
	Advances		6,802,461	311,408	7,113,869
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	8,540,000		8,540,000
	Bonds	50	16,902,500		16,902,500
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	11,202,200	190,000	11,012,200
	Advances		200,000		200,000
	Total		**$48,523,266**	**$ 93,627**	**$48,616,893**

Source and Application of Funds for the Year 1962

Source of Funds	Amount recoverable from Government of Canada in respect of deficit for the year (including $39,584,000 received on account prior to December 31, 1962)	$ 48,919,454
	Increase in long term debt	4,675,775
	Provision for depreciation	95,918,094
	Issue of 4% preferred stock	21,939,665
	Other (net)	10,718,542
	Total	**$182,171,530**
Application of Funds	Deficit for the year	$ 48,919,454
	Additions to property investment	113,487,661
	Advances to Trans-Canada Air Lines	9,800,000
	Increase in working capital	9,964,415
	Total	**$182,171,530**

Inventory of Railway Equipment

		On Hand Dec. 31, 1962
Motive Power Equipment	Diesel Electric Units	2,125
	Electric Locomotives	27
	Steam Generator Units	108
Total		**2,260**
Freight Equipment	Box, Flat and Stock Cars	76,124
	Refrigerator Cars	5,279
	Gondola and Hopper Cars	23,774
	Caboose and Other Cars	1,951
Total		**107,128**
Passenger Equipment	Coach Cars	729
	Sleeping, Dining, Parlour and Tourist	571
	Baggage, Mail and Express	1,300
	Other Cars in Passenger Service	243
Total		**2,843**
Work Equipment	Units in work service	**9,551**
Floating Equipment	Car Ferries	6
	Steamers	14
	Barges, Tugs and Work	12
Total		**32**

Operated Mileage at December 31, 1962

		Owned	Leased	Trackage Rights	Total
Operated Road Mileage—first main track	Atlantic Region	3,802	1	83	3,886
	St. Lawrence Region (including New England Lines)	3,878	7	15	3,900
	Great Lakes Region	3,328		16	3,344
	Prairie Region (including Duluth, Winnipeg and Pacific)	8,148		5	8,153
	Mountain Region	4,066	35	85	4,186
	Grand Trunk Western Lines	879	10	58	947
	Central Vermont Lines	308		59	367
	Total	**24,409**	**53**	**321**	**24,783**
	Lines in Canada	22,816	36	201	23,053
	Lines in United States	1,593	17	120	1,730
Operated Mileage—all tracks	First main track	24,409	53	321	24,783
	All other main lines	1,129		82	1,211
	Spurs, sidings and yard tracks	7,241	16	1,645	8,902
	Total all tracks	**32,779**	**69**	**2,048**	**34,896**

Pension Trust Funds Balance Sheet at December 31, 1962

Assets

Current Assets	Cash—In Banks—Current Accounts			$ 212,438	
	—Time Deposits			800,000	
	Deposits with Trust Companies			447,390	
				1,459,828	
	Accrued interest on investments			3,933,096	
	Accounts receivable—				
	Canadian National Railways—current account			2,096,784	
	Banks, Insurance and Trust Companies re Mortgages			263,459	$ 7,753,167
Investments	Stocks—at cost	(Market value $42,753,228)		40,157,906	
	Bonds—at amortized value	(Market value $255,908,364)		276,517,986	
	Mortgages—at amortized value		$126,710,778		
	less holdbacks		478,058	126,232,720	442,908,612
Canadian National Railways	Acknowledged liability in respect of past service of employees				395,000,000
					$845,661,779

Liabilities

Current Liabilities	Accounts Payable		$ 62,694
Reserve for Pensions	In respect of pensions in force and pensions accruing to active employees under the 1935 and 1959 Pension Plans		845,599,085
			$845,661,779

Note: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows:—

Annuity Trust Fund	$ 11,337,872
Supplemental Annuity Trust Fund	2,300,349
	$ 13,638,221

L. J. Mills,
Comptroller

Pension Trust Funds Statement of Reserve at December 31, 1962

	Reserve at December 31, 1961			**$737,667,542**
Addition to Reserve during the year:	Increased unfunded liability in respect of past service acknowledged by Canadian National Railways		$70,000,000	
	Contributions from employees on account of—			
	Current service	$17,598,249		
	Prior years' deficiencies	5,087,400		
		22,685,649		
	Less refunds on termination of service, etc.	2,769,374	19,916,275	
	Contributions by the Company		26,271,742	
	Interest earned on contributions made by the Company and employees		18,928,338	135,116,355
				872,783,897
Deductions from Reserve during year:	Pensions paid			27,184,812
	Reserve at December 31, 1962			**$845,599,085**

Auditor's Report

To the Trustee,
Canadian National Railways Pension Funds.

I have examined the balance sheet of the Pension Trust Funds of the 1935 and 1959 Pension Plans of Canadian National Railways at December 31, 1962 and the statement of reserve for pensions for the year ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1962 and of the results of their operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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

J. A. de Lalanne,
Chartered Accountant

February 28, 1963

Actuarial Certificate

This is to certify that the Reserve for Pensions shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to $845,599,085 as at December 31, 1962, in our 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.

Denis R. J. George,
Dudley Funnell,
Fellows of the Institute of Actuaries

William M. Mercer Limited

Montreal, February 19, 1963

Statistics of Rail-Line Operations

		1962	1961	% Increase or Decrease
Train Miles	Freight Service	34,283,043	34,041,907	0.7
	Passenger service	18,096,980	19,576,875	7.6
	Work service	1,634,258	1,561,665	4.6
	Total train miles	**54,014,281**	**55,180,447**	**2.1**
Locomotive Miles	Freight service	34,545,765	34,299,804	0.7
	Passenger service	16,072,350	17,407,808	7.7
	Switching service—Road and Yard	17,947,807	18,066,116	0.7
	Work service	1,657,702	1,583,756	4.7
	Total locomotive miles	**70,223,624**	**71,357,484**	**1.6**
Car Miles	**Freight Service:**			
	Loaded	1,110,109,898	1,092,918,197	1.6
	Empty	680,423,883	664,846,763	2.3
	Other	14,257,575	14,417,958	1.1
	Caboose	35,075,508	34,420,941	1.9
	Passenger—Coach and Combination	3,231,400	3,074,942	5.1
		1,843,098,264	**1,809,678,801**	**1.8**
	Passenger Service:			
	Coach and Combination	39,278,731	42,009,734	6.5
	Sleeping, Parlour and Observation	40,601,819	42,646,795	4.8
	Dining	7,948,251	8,434.799	5.8
	Motor Unit	3,806,184	3,782,495	0.6
	Other (baggage and express, etc.)	79,132,838	84,810,887	6.7
	Freight—loaded	1,423,952	2,523,331	43.6
	Freight—empty	372,441	454,211	18.0
		172,564,216	**184,662,252**	**6.6**
	Work Service	2,804,515	3,302,287	15.1
	Total car miles	**2,018,466,995**	**1,997,643,340**	**1.0**
Ton Miles	Gross ton miles—all services (excluding passenger cars on passenger trains)	80,715,356,000	78,849,250,000	2.4
	Net ton miles—all services	36,110,915,000	35,280,613,000	2.4
Average Miles of Road Operated		**24,753.38**	**24,854.33**	**0.4**
Freight Traffic	Freight revenue	$ 529,307,712	513,949,260	3.0
	Tons carried—Revenue freight	78,384,773	76,022,886	3.1
	Ton miles—Revenue freight	35,595,425,349	34,723,214,717	2.5
	Train hours in freight road service	1,548,194	1,569,482	1.4
	Averages Per Mile of Road:			
	Freight revenue	$ 21,383	20,678	3.4
	Train miles	1,385	1,370	1.1
	Total freight train car miles	73,827	72,241	2.2
	Ton miles—Revenue freight	1,438,003	1,397,069	2.9
	Ton miles—All freight	1,458,828	1,419,496	2.8
	Averages Per Loaded Car Mile:			
	Freight revenue	¢ 47.6	46.9	1.5
	Ton miles—All freight	32.5	32.2	0.9

Statistics of Rail-Line Operations (continued)

			1962	1961	% Increase or Decrease
Freight Traffic (Continued)	**Miscellaneous Averages:**				
	Revenue per ton	$	6.753	6.760	0.1
	Revenue per ton mile	¢	1.487	1.480	0.5
	Miles hauled per revenue ton		454.1	456.7	0.6
	Cars per train—loaded		32.4	32.2	0.6
	Cars per train—empty		19.8	19.5	1.5
	Gross load—Freight trains (tons)		2,352	2,313	1.7
	Net load—Freight trains (tons)		1,053	1,035	1.7
	Gross ton miles per freight train hour		52,085	50,172	3.8
	Train speed—Miles per hour		22.1	21.7	1.8
	Diesel unit miles per serviceable day (excluding stored)		217	208	4.3
Passenger Traffic	Passenger revenue	$	34,331,531	34,793,498	1.3
	Revenue passengers carried		12,342,782	12,104,791	2.0
	Revenue passenger miles		1,129,315,233	1,075,770,694	5.0
	Averages Per Mile of Road:				
	Passenger revenue	$	1,387	1,400	0.9
	Train miles		731	788	7.2
	Total passenger train car miles		7,603	8,000	5.0
	Revenue passenger miles		45,623	43,283	5.4
	Averages Per Car Mile—Passenger:				
	Passenger revenue	¢	40.2	38.7	3.9
	Revenue passenger miles		13.2	12.0	10.0
	Miscellaneous Averages:				
	Revenue per passenger	$	2.782	2.874	3.2
	Revenue per passenger mile	¢	3.040	3.234	6.0
	Average passenger journey (miles)		91.5	88.9	2.9
	Percent on time arrival—principal passenger trains		72.7	71.4	1.8
	Diesel unit miles per serviceable day (excluding stored)		379	379	—
Operating Results	Total operating revenues per mile of road	$	29,827	28,579	4.4
	Total operating expenses per mile of road		29,850	29,055	2.7
	Net railway operating loss per mile of road		23	476	95.2

		1962	1961	Increase or Decrease Tons	%
Revenue Tonnage Carried (by classes of commodities)	Agricultural Products	13,464,634	14,402,246	937,612	6.5
	Animals and Animal Products	662,726	737,974	75,248	10.2
	Mine Products	27,108,716	26,624,648	484,068	1.8
	Forest Products	9,096,858	8,413,443	683,415	8.1
	Manufactured and Miscellaneous	27,256,436	24,999,336	2,257,100	9.0
	Total Carload Freight	77,589,370	75,177,647	2,411,723	3.2
	All less than carload freight	795,403	845,239	49,836	5.9
	Grand Total	**78,384,773**	**76,022,886**	**2,361,887**	**3.1**

A 25-Year Synoptical History of the Canadian National Railways

Year	Operating Revenues	Operating Expenses	Net Railway Operating Profit or Loss	Other Income	Surplus or Deficit before Interest Charges	Interest on Long Term Debt	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	¢	Millions	¢	
1938	$182,242	$184,375	$ 2,133	$ 1,271	$ 862	$ 53,452	$ 54,314	14,505	.964	892	2.030	79,940
1939	203,820	191,382	12,438	955	13,393	53,488	40,095	17,084	.938	875	2.035	81,672
1940	247,527	211,563	35,964	376	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366
1941	304,377	248,750	55,627	1,551	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362
1942	375,655	300,725	74,930	1,803	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651
1943	440,616	358,982	81,634	6,195	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893
1944	441,147	373,422	67,725	5,776	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278
1945	433,773	365,895	67,878	5,888	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591
1946	400,586	369,027	31,559	6,164	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809
1947	438,198	414,487	23,711	6,330	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801
1948	491,270	481,094	10,176	2,633	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395
1949	500,723	495,176	5,547	1,042	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057
1950	553,831	513,387	40,444	3,717	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347
1951	624,834	599,237	25,597	7,548	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608
1952	675,219	655,725	19,494	6,063	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297
1953	696,622	676,465	20,157	9,463	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109
1954	640,637	639,998	639	3,130	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237
1955	683,089	646,378	36,711	7,011	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430
1956	774,801	728,009	46,792	11,068	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639
1957	753,166	755,214	2,048	9,447	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620
1958	704,947	719,211	14,264	9,194	5,070	46,521	51,591	35,077	1.554	1,269	3.270	113,086
1959	740,165	741,852	1,687	6,897	5,210	48,798	43,588	35,542	1.613	1,272	3.159	111,538
1960	693,141	705,818	12,677	6,203	6,474	61,023	67,497	34,011	1.547	1,208	3.171	104,155
1961	710,305	722,147	11,842	7,010	4,832	62,476	67,308	34,723	1.480	1,076	3.234	99,564
1962	738,325	738,883	558	14,137	13,579	62,498	48,919	35,595	1.487	1,129	3.040	97,922

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