Canadian National
Annual Report 1982

The payoff from the successful management of recession is about to begin. Where 1982 was characterized by the necessity for restraint and retrenchment, 1983 will be the year when we are able to turn our full attention to recovery and, particularly, towards ensuring that the people who work for Canadian National receive full recognition for the part they play in the achievements of the Company.

Coming out of the tunnel

Locomotive 5283 leading a mile-long freight train out of a tunnel, symbolizes the fortunes of CN, moving into 1983, a year of optimism.

La version française du présent rapport est disponible sur demande à l'adresse suivante :

Canadien National
Affaires publiques et publicité
C.P. 8100 Montréal (Québec)
H3C 3N4

System Highlights

	1982	1981	Increase (Decrease) Amount	Percent
Financial Results				
Revenues	$ 4,165.0	$ 4,301.3	$ (136.3)	(3.2)
Interest expense – net	240.4	170.8	69.6	40.7
Net income (loss)	(223.0)	193.2	(416.2)	—
Dividend	—	38.6	(38.6)	—
Return on average investment %	0.3	7.8	(7.5)	—
Return on average equity %	—	6.5	(6.5)	—
Capital Expenditures				
Additions to properties	648.1	662.5	(14.4)	(2.2)
Assets and Working Capital				
Current assets	1,006.9	1,063.4	(56.5)	(5.3)
Working capital (Deficiency)	(9.0)	(7.6)	1.4	18.4
Properties	5,193.5	4,832.1	361.4	7.5
Total assets	6,336.0	6,133.8	202.2	3.3
Capital Structure				
Long-term debt (including current portion)	2,274.8	1,784.2	490.6	27.5
Equity	2,840.9	3,059.6	(218.7)	(7.1)
Debt ratio %	44.5	36.8	7.7	20.9
Employees				
Average number of employees	67,113	73,287	(6,174)	(8.4)
Average annual wage per employee	$ 28,806	$ 25,906	$ 2,900	11.2
Average annual cost per employee	34,679	30,967	3,712	12.0

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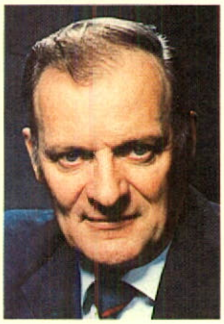
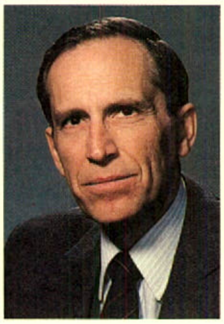
Directors

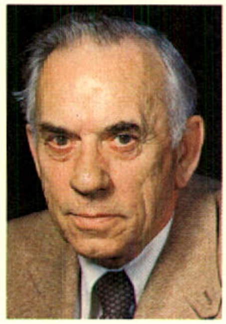


Hon. J.H. Horner, P.C.
Pollockville, Alta.
Chairman
Since June 1

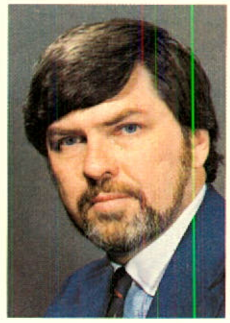


Dr. J.M. LeClair
O.C., M.D., LL.D.
Montreal, Que.
President and
Chief Executive Officer
Since April 1

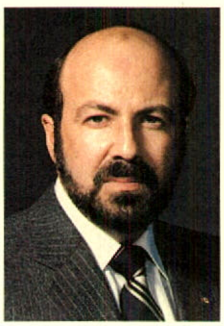
J.S. Hinds, Q.C.
Sudbury, Ont.



Benoit Joncas
Matane, Que.



D.G.A. McLean
Vancouver, B.C.



G.D. Mandel
Winnipeg, Man.
Since June 1

Ewart A. Pratt
St. John's, Nfld.

F.D. Rosebrugh
Toronto, Ont.

G.T. Urquhart
Moncton, N.B.
Since October 26

The Directors wish to acknowledge the excellent service rendered to the Company by several Board members whose terms of office ended in 1982:

R.A. Bandeen
O.C., Ph.D., LL.D., D.C.L.
Montreal, Que.
Until March 31

J.A. Dextraze
C.C., C.B.E., C.M.M.,
D.S.O., C.D., LL.D.
Ottawa, Ont.
Until May 31

A.E. Hayes
Halifax, N.S.
Until June 16

C.Kroft
Winnipeg, Man.
Until May 31

H.A. Renouf
O.C., F.A.C., LL.D.
Halifax, N.S.
From June 17
to December 2

W.J. Vancise, Q.C.
Regina, Sask.
Until May 25

To the Honourable
The Minister of
Transport
Ottawa

Dear Mr. Minister:

The Board of Directors submits herewith the Annual Report of Canadian National Railways System for 1982.

The year was a difficult and disappointing one, resulting in Canadian National's first net loss since 1975. One must recognize, nevertheless, that the Company's response to the worldwide economic downturn constituted a very impressive demonstration of its ability to respond to sudden adverse changes and of the effectiveness of the on-going drive to modernize the management structure and improve overall efficiency.

The unsatisfactory financial results of 1982 stemmed from events and conditions that were outside the control of Canadian National. As well as widespread economic recession, these included the continuance of long-standing problems connected with the handling of export grain. Included in the reported loss are several separate non-recurring items chargeable to expenses in 1982.

In the context of the circumstances that prevailed in 1982, the operational performance of Canadian National was good. The basic capability and productivity of the railway plant was maintained despite sharp declines in the volume of the traffic and revenues. Several of the non-rail divisions actually did more business, earned higher revenues and improved their profit positions during the year. Skilled and knowledgeable management in both the rail and non-rail divisions was mainly responsible for these successes. Another important factor was the continued evolution of a management structure that gives significant managerial autonomy to the divisions and encourages innovation and responsible business initiative.

The Board of Directors anticipates a continued good operational performance and a better financial result in 1983 and subsequent years. The extent of the improvement in the results will, however, depend significantly on improvement in Canada's economy and on the satisfactory resolution of the problems related to export grain.

Recent steps taken by Government towards resolution of what is usually called the Crow rate issue are encouraging in this respect.

The Board recognizes the obligation of Canadian National to serve the national interests of Canada efficiently, with dedication, and in a fully accountable manner. Good communication and effective cooperation is obviously important here: but it remains the view of the Board that accountability as a business corporation also means receiving full financial compensation for non-commercial services provided at the request of the Government or because of any statutory requirement. The Board looks forward to a continuation of the progress that has been made in this respect in recent years.

The Board is grateful for the effective work and interest of the many people who have helped and are helping Canadian National to serve Canada well.

Hon. J.H. Horner, P.C.
Chairman

Officers

as at December 31, 1982

Hon. J.H. Horner, P.C.
Chairman of the Board

J.M. LeClair
President and Chief Executive Officer

G.M. Cooper
Vice-President and Secretary

J. Gratwick
Vice-President, Executive

A.R. Williams
Corporate Vice-President
Western Canada

Corporate

M.J.L. Kirby
Senior Corporate Vice-President

Y.H. Masse
Senior Corporate Vice-President and Chief Financial Officer

L.L. Atkinson
Vice-President
Human Resources — Corporate

G.C. Church
Treasurer

E.D. Pinsonnault, Q.C.
Vice-President
Law — Corporate

S.D.H. Thomas
Corporate Comptroller

Divisions

CN Rail

R.E. Lawless
President and Chief Operating Officer

J.L. Cann
Vice-President
Operations

J. Horrocks
Vice-President
Finance and Planning

W.H. Morin
Vice-President
Employee Relations

J.H.D. Sturgess
Vice-President
Marketing

P.A. Clarke
President and General Manager
TerraTransport

D.L. Fletcher
Vice-President
Prairie Region

J.R. Lagacé
Vice-President
St. Lawrence Region

R.G. Messenger
Vice-President
Atlantic Region

G.A. Van de Water
Vice-President
Great Lakes Region

R.A. Walker
Vice-President
Mountain Region

A.E. Deegan
Vice-President
Administration

R. Boudreau
Vice-President — Law

P.J. Foliot
Vice-President
Purchases and Materials Management

CN Enterprises

R.C. Franklin
President

D.H. Burstow
President
Real Estate

D.C. Campbell
General Manager
CN Communications

J.B. Griffith
General Manager
CNTL Trucking Subsidiaries

C. Perron
President and General Manager
CN Express

C.J. Sauvé
General Manager
CN Hotels and Tower

W.H. Bailey
President and Chief Executive Officer
Canac Consultants Limited

J.J. Prairie
President
CN Exploration Inc.

C.J. Hudson
General Manager
CNM Inc.

R.J. Tingley
President and General Manager
CN Marine Inc.

CN Investment Division

T. Cedraschi
President and Chief Executive Officer

Grand Trunk Corporation

J.H. Burdakin
President

Companies

Companies included in the Consolidated Financial Statements of the Canadian National Railway System as at December 31, 1982

Consolidated Companies

Autoport Limited
Canac Consultants Limited
The Canada and Gulf Terminal Railway Company
Canadian National Express Company
Canadian National Hotels (Moncton) Ltd.
Canadian National Railway Company
The Canadian National Railways Securities Trust
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company Limited
Canadian National Transportation, Limited
The Canadian Northern Quebec Railway Company
Canat Limited
Canaven Limited
Chalut Transport (1974) Inc.
Chapman Transport Limited
CN Exploration Inc.
C.N. (France) S.A.
CN Marine Inc.
CNM Inc.
CN Tower Limited
CN Tower Restaurants Ltd.
CN Transactions Inc.
Coastal Transport Limited
Cronin Transport Limited
Detroit, Toledo and Ironton Railroad Company
Domestic Two Leasing Corporation
Domestic Three Leasing Corporation
Domestic Four Leasing Corporation
Duluth, Winnipeg and Pacific Railway Company
Empire Freightways Limited
Grand Trunk Corporation
Grand Trunk Land Development Corporation
Grand Trunk Radio Communications, Inc.
Grand Trunk Western Railroad Company
The Great North Western Telegraph Company of Canada
Husband International Transport (Ontario) Limited
[1] 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
Northwestel Inc.
[2] 116334 Canada Inc.
[3] 116335 Canada Inc.
The Quebec and Lake St. John Railway Company
Royal Transportation Limited
Swan River-The Pas Transfer Ltd.
Terra Nova Telecommunications Inc.
The Toronto-Peterborough Transport Company, Limited
Transport Husband (Québec) Inc.
[4] Transport Route Canada Inc.

Jointly-operated and Other Companies in which the System has Investments

The Belt Railway Company of Chicago
Canaprev Inc.
Central Vermont Railway, Inc.
Chicago and Western Indiana Railroad Company
Compagnie de gestion de Matane Inc.
Computer Sciences Canada, Ltd.
* East Yard Development Ltd.
* E I D Electronic Identification Systems Ltd.
Eurocanadian Shipholdings Limited
* Fort Point Holdings Ltd.
Halifax Industries (Holdings) Limited
Halterm Limited
Intercast S.A.
Lakespan Marine Inc.
Les Entreprises Bussières Ltée
The Public Markets, Limited
Seabase Limited
Shawinigan Terminal Railway Company
Société du port ferroviaire de Baie Comeau-Hauterive
Telesat Canada
The Toronto Terminals Railway Company
Trailer Train Company

* Acquired in 1982
[1] Formerly Husband Inc.
[2] Formerly Eastern Transport Limited
[3] Formerly Provincial Tankers Limited
[4] Formerly Hoar Transport Company Limited

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

President's Statement

Brief Overview

The net loss of $ 223.0 million which resulted from the varied operations of Canadian National in 1982 had the effect of masking the managerial and operational accomplishments of the Company during the year. Despite the severe world-wide recession which affected all sectors of the Canadian economy in 1982, and bore particularly hard on the rail transportation business of CN, impressive, positive results were produced. These included a significant reduction in the impact of recession on rail operations, an overall profit on non-rail operations and maintenance of the capability of Canadian National to provide a broad range of efficient services to its customers and the nation as a whole.

Of the 1982 net loss almost half ($ 108.2 million) was absorbed following decisions to:

– make provision in the accounts for the possibility that the value of the Company's investment in Eurocanadian Shipholdings Limited (CAST) will have to be written down;

– write down the value of the Company's investment in Central Vermont Railway Inc.; and

– record as an expense the costs associated with the re-structuring of Canadian National's express and trucking operations.

The amounts recorded as losses in 1982 comprised: $ 61.5 million, Eurocanadian Shipholdings; $ 35.9 million, Central Vermont Railway; and $ 10.8 million related to the express-trucking decision.

The actions taken represent difficult, but timely and prudent, decision-making. In the case of Eurocanadian Shipholdings the world-wide decline in the demand for ocean shipping, which has been in effect since 1981, has substantially lessened the value of this holding. In the case of the Central Vermont Railway, the commercial viability of this company was being threatened by increased competition stemming mainly from the merger of other U.S. railways serving the same basic market. The decision to proceed with the re-structuring of express and trucking followed careful studies which indicated that potential for profitability and growth would greatly improve if the units were managed as a single operation. All three decisions were felt necessary for the Company to present an accurate picture of its current financial performance.

Canadian National expects a much improved financial situation in 1983 and the years immediately following. This expectation is based on several factors: no further investment losses are foreseen; a greater volume of profitable rail traffic and other business will result from the economic recovery that should begin in 1983 and be sustained over the next few years; recent progress towards settlement of the so-called Crowsnest Pass grain rate issue is designed to provide Canadian railways with reasonable financial compensation for the transportation of export grain; and the lessons of economy and productivity learned during the difficult economic period from which we now seem to be emerging, have had the effect of honing our management skills.

Role of Canadian National

Canadian National was created by the Canadian National Railways Act of 1919 out of more than 200 railway companies, many of them insolvent. Its role was to fulfill a clearly articulated national goal: to weld a number of railway companies serving the various parts of Canada into one strong and commercially competitive system serving the entire nation. Though the world in which CN must function has changed dramatically in the intervening years, the mission of the company remains tied to its historic role. But the scope of its national responsibilities and the tools available for implementing them have grown in scale and complexity.

In order to compete effectively and operate efficiently in new environments, Canadian National has had to adapt and adopt. From a railway company concerned mainly with moving people and goods from one point to another, the Company has become a diversified transportation and communications enterprise with a number of complementary interests: telecommunications, trucking , shipping, resource development, real estate, hotels and international business consulting.

In this new form we carry on the tradition of professional competence displayed during the early and developing years of the Company.

It is also within this tradition that we continue to seek ways to improve. In recent years our attention has been focussed on three areas: the development of a decentralized corporate structure; a management organization suitable to ever-changing business and social conditions; and the incorporation into CN of the most useful technological advances and managerial innovations relevant to developments in transportation, communications and allied fields.

Where CN is Going

The primary responsibility of management must be to preserve and compound the value of the Company for the benefit of all Canadians.

CN is a commercial Crown corporation which is well-equipped, well-managed and efficient. It is, in fact, a national asset, and as such compares favorably with any national or international organization (private or public) providing similar services.

It is within this framework that Canadian National will move towards three main objectives:

– to develop into a fully-integrated transportation company providing customers a complete service from origin to destination by a variety of transport modes;

– to develop similarly integrated communications services, on a national basis, designed to capitalize on the impetus of the emerging "information society" which places a premium on the need for access to appropriate data;

– to develop the maximum commercial potential of existing assets.

Success in attaining these goals will ensure the Company remains an effective instrument in fulfilling its national role, both now and in the future.

The Importance of People

During the past 12 months careful and pragmatic "management of recession" has been necessary and has worked well. Throughout the Company, expenditures have had to be reduced and activities curtailed as workloads and revenues decreased. Without effective reduction of expenses, losses on operations would have been significantly higher and corporate financial results considerably worse. But it is important to note that these economies have been implemented without materially lessening the ability of the various sectors of Canadian National to respond quickly to favorable changes in business conditions or to provide the transportation services required in the national interest.

Managing the recession has not been easy. It has called for some very difficult decision-making, particularly in the adjustment of staff levels to workload. Layoffs, elimination of jobs, early retirements, even reduction of staff through "normal attrition", frequently brought distress to the individuals affected as well as to their families and the communities in which they live. In these circumstances the individual manager, who often had to make painful choices, suffered also.

It is clear however, that the difficult but necessary actions of 1982 have had the desired effect; CN is now poised to respond constructively to improved market conditions and to any increased demand for services. For this achievement we gratefully acknowledge the cooperation of our staff. Their skills, experience and dedication, at all levels, have been, and will remain, fundamental to the well-being of the Company. For our part, we pledge the continuation and, where necessary, the sharper definition and speedy implementation of policies and practices which recognize that people are indeed the most important resource and most valuable asset of Canadian National.

Conclusion

As we enter 1983, CN looks forward to moving from a period of recession to what we believe will be a much longer period of expansion and renewal. The payoff from the successful management of recession is about to begin. Where 1982 was characterized by the necessity for restraint and retrenchment, 1983 will be the year when we are able to turn our full attention towards recovery and, particularly, to ensuring that the people who work for Canadian National receive full recognition for the part they play in the achievements of the Company. As well, we remain committed to maintaining the tradition of national service and management excellence which has been an integral part of our history.

Maurice LeClair

J. Maurice LeClair
President & Chief Executive Officer

Selected Highlights of the Report

The events and conditions of the past year made for a less-than-satisfactory financial result, but did not prevent progress and achievement.

Income Fall-off

Unfavorable world-wide economic conditions in 1982 produced a sharp decline in the volume of freight moved by railways in Canada and the United States; with a consequent fall-off in corporate income from Canadian National's railway operations. CN Rail, the largest member of Canadian National's family, showed a loss of $ 34.9 million in 1982 compared with a profit of $ 215.0 million the previous year. Grand Trunk Corporation, CN's United States rail subsidiary, also experienced a decline in profitable traffic and a consequent net loss of $ 54.5 million, $ 35.9 million of which is attributed to the write-down of Central Vermont Railway. Total losses to Canadian National on rail operations in 1982 amounted to $ 121.8 million.

Non-Rail Success

The overall financial results achieved by the non-rail sections of the Company can only be described as outstanding in light of the current economic conditions.

The division formerly known as CN Holdings was reorganized as CN Enterprises during the year with overall responsibility for activities other than those carried out by the rail divisions. This move is designed to improve the proficiency and accountability of Canadian National by giving it a structure similar to that of a modern, diversified and decentralized corporation. Within five years CN Enterprises is expected to produce about 40 per cent of corporate income and to be an important source of capital for other corporate purposes, including the improvement of rail services.

As a group, this unit is expected to produce a return on investment that matches generally acceptable commercial standards. In 1982 it earned a profit of $ 63.9 million. This represents an improvement of $ 7.4 million, or 13 per cent, over the previous year. Most of the divisions within CN Enterprises contributed to this favorable result. Details of their financial and operating results may be found in other sections of this annual report.

Crowsnest Rate Issue

Canadian National expects to make a modest profit in 1983 and to improve its financial performance in subsequent years. A major reason for this anticipated improvement rests on the expectation that the Company will begin to receive some financial compensation for the transportation of export grain in 1983. Recently announced arrangements involving interim payments to the railways, and proposed federal legislation designed to resolve the Crowsnest rate issue, will not provide full commercial compensation for losses on grain carried at statutory rates. However, the interim grain payment should add substantially to the cash flow of Canadian National in 1983 and should enable us to proceed in an efficient manner with the plant expansion program needed to meet the growth in demand for rail transportation that is anticipated in Western Canada during the rest of this decade.

Expansion of CN Rail

CN Rail plans to spend about $ 491.6 million on capital projects in Canada in 1983. Most of these monies will be spent in the West, generating about 3,300 jobs in direct railway work. These jobs will directly trigger an infusion of an additional $ 50 million into the western economy. Many other jobs, and the economic and social benefits associated with them, will also be generated across Canada by the expenditure of about $ 90 million on the purchasing of such materials as steel rails and roadway equipment manufactured in Eastern Canada and wood and concrete railway ties produced mainly in the West.

Over the longer period of 1983-87, Canadian National will be able to increase previously planned rail capital expenditures by 76 per cent — from $ 2.1 billion to $ 3.7 billion. One direct effect of this expenditure will be to add about 9,700 person-years of work to CN Rail's programs. Again, the total economic enrichment will be much greater than the sum of CN's employment and purchasing programs in Eastern and Western Canada

Buy Canada Policy

It is Canadian National policy to buy Canadian products whenever possible. At present 88 per cent of our purchasing is done in Canada and 31 per cent of this "Canadian content" comes from Western Canada. Continued efforts will be made to increase both the Canadian content and the participation of Western suppliers.

CN Rail

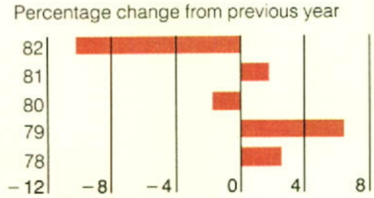
Economic recession, resulting in a sharp decline in freight traffic volume and revenues, was the major cause of the unsatisfactory financial result shown by CN Rail in 1982. Improvement is anticipated for 1983 and beyond, based on the likelihood that some general economic recovery will begin in 1983 and also on recent moves by the Federal Government which should result in more adequate compensation for the transportation of Western Canada grain.

The volume of freight traffic carried by CN Rail, expressed in revenue ton miles, fell by 11.7 per cent in 1982 compared with 1981, despite a 6.8 per cent increase in the handling of grain at both commercial and statutory (Crow) rates. There was an increase of 1.8 million tons, or 12.4 per cent, in the volume of grain carried at statutory rates. Revenue declines were steepest in the Fuels and Chemicals; Ores, Minerals and Metals; Automotive and Construction Materials sectors. Overall freight revenues in 1982 were $ 2.29 billion, down by $ 189.0 million, or 7.6 per cent, from 1981.

In other types of revenues, the operating contract with VIA Rail Canada produced $ 340.4 million, or $ 2.8 million less than in the previous year. This reduction was a consequence of the cutback in late 1981 of about 20 per cent of national passenger services. Government payments for losses on subsidized branch lines rose to $ 212.8 million, an increase of $ 92.2 million over 1981. In 1982, payments received for losses incurred in prior years totalled $72.5 million.

Canadian Industrial Production

Percentage change from previous year



The severe reductions in traffic and income forced a major curtailment of expenditure and employment levels during 1982. Total employment decreased by approximately 5,500 positions, or 10 per cent of the work force. The effect of inflationary pressures on expenses was again significant in 1982 and the containment of expenses was achieved despite a 12 per cent increase in the general wage structure and a 14 per cent increase over 1981 for diesel fuel. The cost of other materials and services rose by 7 per cent during the year.

Expense reductions were achieved in 1982 despite the additional costs associated with the previously-mentioned increase of 1.8 million tons of grain carried at Crow rates. The revenue for this traffic amounts to only one-fifth of the cost of handling it.

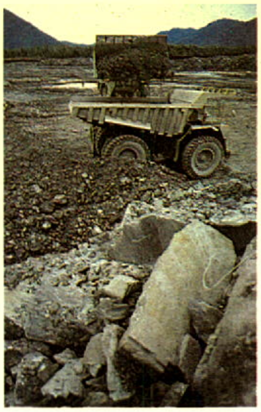
The effectiveness of CN Rail's expense policies in 1982 have prepared the Division to take full advantage of the expected economic recovery later in 1983. Cost reductions were an important aspect of "hard times" management in 1982 and are likely to be continued throughout 1983. But retrenchment has been carried out with minimum adverse effect on the operational efficiency and productivity of CN Rail. The objective is to maintain ability to serve customers well, to respond quickly to favorable business conditions, and to provide efficiently the wide range of rail transportation services required by the Canadian economy.

In 1982 CN Rail made capital expenditures of $ 469.1 million, of which $ 175.1 million was for the basic replacement and renewal of roadway plant and property. Programs for the installation of new, replacement rail cost $ 71.1 million and required 541.4 kilometres of rail. A total of 1.4 million new wooden and concrete ties were installed in CN Rail's five regional territories at a cost of $ 38.4 million. Similarly, track ballast programs were carried out with a capital expenditure of $ 20.2 million.

Expenditures on rolling stock and other equipment were $ 123.1 million and included the acquisition of 20 new diesel electric locomotives, 250 new woodchip gondola cars and rolling stock previously under long-term leases; also, the modification and conversion of other units of the rolling stock fleet.

Expenditures amounted to $ 85.5 million for the Western Canada plant expansion program started in 1980 on the main line between Winnipeg and Vancouver. In addition, $ 51.6 million was spent on the British Columbia North Line between Red Pass and Prince Rupert. This latter project will result in additional capacity to handle the new major coal developments in British Columbia and also important bulk export commodities such as grain, potash, sulphur and petro-chemicals.

Total capital expenditures were lower by $ 146.0 million than originally planned for the year, reflecting the severity of the recession.



CN Rail's heavy-duty rail operations demand constant attention to track structure. Maintenance, improvement and expansion ensure reliable operation along the 40,000 kilometres system. Photos at left show ballast being spread, grading a new road bed and checking the alignment of new track.

Below, CN Rail relies on long heavy freight trains because of their high productivity.

Serving Canada

CN Rail pursues its business activities in the firm belief that commercial efficiency on the part of the Division serves the general interests of Canada. The new "Laser" service introduced in October for the movement of highway trailers between Toronto and Montreal is a case in point. Based on careful market studies, good knowledge of modern distribution techniques and the productive use of existing facilities and equipment, this service offers to shippers a competitively-priced, fuel-efficient alternative to congested highway routes. It also contributes to protection of the environment and produces savings to taxpayers on highway construction and maintenance.

In a similar manner, although on a larger and broader scale, important benefits are expected to flow to Canadians from the recent Federal Government decisions that will allow Canadian railways to begin earning a reasonable, though not yet commercially adequate, financial return on the transportation of Western grain to export terminals.

In the 1980-1982 period, CN Rail expended over $ 200 million of its capital resources on Western Canada rail capacity expansion. This imposed a heavy debt burden on the Division, which was accepted in the confident belief that the Government would soon resolve the crippling Crow grain rate problem which has led to huge annual losses for Canadian railways. An immediate effect of the recently announced arrangements will be to enable CN Rail to proceed with Western expansion on a business-like basis. The various advantages to Canada stemming from the investments currently planned are noted in the "President's Statement" at the beginning of this Annual Report. They include increased direct employment by CN Rail as well as other regional economic benefits generated by the 88 per cent "Canadian content" of the materials, equipment and supplies purchased by the Division.

The benefits to Canada of the capacity expansion program will also include improvements in the grain transportation system. These improvements will comprise extensive double-tracking, more efficient operation of terminals, and more sophisticated train dispatching and signalling. A modern electronic monitoring and control system designed to shorten grain car movement cycles and maximize the productivity of the grain car fleet is being put into place and will be in full operation by 1986. These and other advances will provide the railway with the mainline capacity and traffic monitoring needed to move increasing quantities of grain and other important bulk commodities to export markets. CN Rail regards the efficient handling of this traffic as a task of national importance and will work in partnership with all of the parties concerned, particularly the grain producers and their marketing agencies, to ensure that the challenge is successfully met.

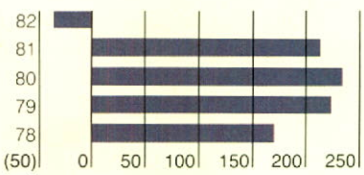
TerraTransport

TerraTransport, responsible for railway operations in Newfoundland, came under the aegis of CN Rail in 1982. As with CN Rail and Grand Trunk Corporation, economic conditions beyond management control were mainly responsible for deterioration in the financial result.

TerraTransport lost $ 32.4 million compared with a loss of $ 28.8 million in 1981. Plant rationalization and improvements in productivity received strong emphasis in 1982 and will continue in 1983 and subsequent years.

CN Rail
Income (loss)

In Millions of Dollars



CN Rail
Revenues

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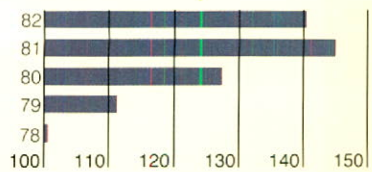


Competent people and modern machines are vital to the railway. At left, a track maintenance machine increases productivity, and new ballast is examined.

1982 was not all bad news. CN Rail launched a successful new overnight piggyback service between Montreal and Toronto. Center photo shows modern trailer-handling facilities at the Brampton, Ont. piggyback terminal. There was enough bad news, however. A severe decline in traffic idled people and equipment. Lower photo shows mothballed locomotives.

Grand Trunk Corporation

The Grand Trunk Corporation (GTC) had a disappointing year in 1982, but looks forward to an upturn in traffic and revenues and a substantial improvement in financial performance in 1983. Cost reductions and productivity improvements made in 1982, and additional reductions planned in 1983, should enable the Corporation to take advantage of a general economic recovery which Grand Trunk management expects will get underway in the U.S. by mid-1983, with continued improvement in 1984.

GTC is made up of the Grand Trunk Western Railroad (GTW); the Detroit, Toledo and Ironton Railroad Company (DTI), a wholly-owned subsidiary of GTW; the Duluth, Winnipeg and Pacific Railway Company (DWP) and the Central Vermont Railway, Inc., (CV). During 1982, GTC took action to improve its competitive position within the U.S. railroad network by entering into an agreement to acquire the Chicago, Milwaukee, St. Paul & Pacific Railroad ('Milwaukee Road'). The acquisition will require approval of the Interstate Commerce Commission, and should be effective by January 1985.

GTC experienced a loss of $ 54.5 million (Canadian) in 1982, compared to a profit of $ 40.5 million in 1981. The loss was caused largely by two factors: (1) the current recession which has severly impacted the economy of the American Midwest, including GTC's automotive traffic base; and (2) provision for the impairment in value of the Central Vermont, referred to below.

In addition to the economic downturn, GTC traffic levels were depressed by competitive pressures within the transportation industry. Pricing freedom allowed by deregulation has led both railroads and motor carriers to reduce rates selectively, in order to capture lucrative traffic from other carriers. Much of this activity has taken the form of long-term contracts between carriers and shippers. While GTC lines lost some traffic through this process, traffic gains were also obtained, although at lower revenue levels.

In response to the downturn in business in 1982, GTC reduced manpower by 10.3 per cent, made substantial reductions in capital programs and cut back some train operations – all without reducing the efficiency of the physical plant or the ability of the Corporation to provide efficient service to its customers. Improved productivity was also part of GTC's response to the challenge of hard times. New train services were introduced and older ones improved.

The competitive pattern of rail traffic in New England has changed drastically with the Interstate Commerce Commission's approval of Guilford Transportation Industries' purchase of the Boston & Maine, Maine Central and Delaware & Hudson Railroads. These ownership changes, coupled with effects of deregulatory pricing, have drastically reduced the Central Vermont's ability to compete on a profitable basis in the future.

Realizing this change could likely be permanent, Canadian National has instructed GTC to seek a buyer for the line. With a sale in 1983 a likely event, GTC has established the appropriate reserve and the loss in 1982 includes the adjustment of the asset to reflect the impairment in the value of the investment.

In view of the expected economic recovery, strengthened by increased consumer spending, moderating inflation and stabilized interest rates, and its impact on the U.S. rail industry, GTC is projecting modest traffic increases in 1983. There will be no repeat of the devastating events of 1982 and GTC anticipates a positive 1983 income and cash flow. This turn-around in the GTC position will occur because of an improved economy, cost reductions, productivity improvements initiated in 1982, and additional reductions in the cost of manpower, capital and maintenance programs in 1983.

Grand Trunk Corporation Income (loss)

In Canadian Dollars — Millions



A team of dedicated GT Corporation employees, as shown at left, ensures reliable delivery of goods to market.

With the 1982 agreement between GT Corporation and the Milwaukee Road, "through" freight trains began operating from Western Canada into the U.S. mid-west through Duluth, Minnesota. Motive power is provided by all three partners, as shown below; Duluth, Winnipeg and Pacific, Milwaukee Road and CN Rail.

CN Enterprises

In 1982 CN Enterprises made material progress towards its goal of becoming a self-sufficient and distinct entity and of making a substantial contribution to corporate income and to the balance sheet. This was achieved despite a difficult year in which all divisions suffered to varying degrees from the ailing economy. CN Enterprises earned a profit of $ 63.9 million, in 1982, compared with $ 56.5 million recorded in 1981. This net improvement reflects the better results of CN Marine Inc. and CN Exploration and a deterioration in the income for CN Trucking and CN Hotels and Tower, which were particularly affected by the economy.

During the year CN Communications launched Telecommunications Terminal Systems, in partnership with Canadian Pacific Ltd., to compete in the rapidly expanding telephone and office communications terminal equipment market.

CN Trucking introduced Route Canada, a coast to coast freight service, and is reorganizing its individual trucking companies into one national operator. In addition, CN's plans now call for the restructuring of its express and trucking operations. CN Hotels and Tower moved a step further towards its goal of a national chain of distinctive hotels, with the opening of the new Hotel Newfoundland, and with arrangements being confirmed for the integration of the Queen Elizabeth and Vancouver hotels into the CN chain on January 1, 1984.

CN Marine rationalized some services in 1982, and by adjusting sailings to match the reduced traffic demand, as well as by other efficiencies, produced an improved performance. A new ice-breaking ferry was introduced into the P.E.I. service. Changes were made to Bay of Fundy services involving the introduction of a larger vessel to replace two existing vessels and the commencement in 1983 of year round operation between Yarmouth and Bar Harbor.

Real Estate activity increased with the Toronto Convention Centre project now underway, and the Hotel Macdonald project being advanced. CN Exploration turned in an excellent first full year of operation.

In 1983 CN Enterprises expects further improvement in the financial results of all divisions, continued decentralization of services to the Divisions and a more simplified organization structure.

CN Communications

The financial results of all the business units of CN Communications were adversely affected by the general economic difficulties of the year and by the Federal Government's "6 and 5" program limiting rate increases. CN Communications nevertheless improved its volume of business and produced a profit of $ 32.1 million, slightly higher than the $ 31.9 million earned in 1981. Details of unit activities follow.

CNCP Telecommunications:

The contribution of CNCP Telecommunications to corporate income was $ 12.0 million – a drop of 7.7 per cent from the previous year. The decline was due mainly to the faltering economy, although fierce competition in the nation-wide marketing of business telecommunications also played a part. The market for such technically advanced communications services is, however, generally expanding and, in response, CNCP added capacity to and upgraded segments of its transcontinental microwave system. It also introduced a new voice service called Econovoice, and demonstrated the new International Telex Service. Improvement in net income, and in contribution to corporate income, is expected in 1983 and subsequent years.

NorthwesTel:

NorthwesTel supplies telephone and a wide range of modern telecommunications services to an area of about 2.35 million square kilometres, in British Columbia, the Yukon and western portions of the Northwest Territories.

In spite of a difficult year, marked by a sharp downturn in revenues in the third and fourth quarters, the company managed to maintain revenue growth at 12.2 per cent and to increase earnings by 12.0 per cent. Difficult times are expected to continue into 1983 and NorthwesTel is faced with the challenge of sharply reducing expenses while maintaining a high quality of service. The Company expects to meet the challenge.

Terra Nova Telecommunications:

Terra Nova Tel, with headquarters at Gander, provides a full range of telecommunications services throughout Newfoundland and Labrador, including telephone service to some 400 mainly rural communities on the Island. Despite the depressed economy of the area,, the company was able to increase earnings from $ 3.0 million to $ 4.2 million. Expenses grew by 10.5 per cent while revenues rose by 12.5 per cent. The company continued its modernization and expansion program with the installation of five new digital exchanges, and added capacity at 18 other exchanges.

CN Communications Income

In Millions of Dollars

In the high-technology world of electronic communications, machines are often seen as the heart of the business. But behind the machines are skilled engineers, designers, operators, and managers, who are the ultimate resource at CN Communications. Here, a technician examines components of an advanced switching center.

Telecommunications Terminal Systems:

This new partnership was launched in the first quarter of 1982, to market telephone terminal equipment to business and industry across Canada for interconnection to the public telephone network. The operation expanded rapidly in its first year, from three employees in one office in Toronto to a year-end total of 87 in five cities – Vancouver, Calgary, Toronto, Ottawa and Montreal. In little more than nine months TTS has moved to third place among Canadian interconnect companies. The new organization achieved its start-up business plan objectives in 1982 and expects to be profitable in 1983.

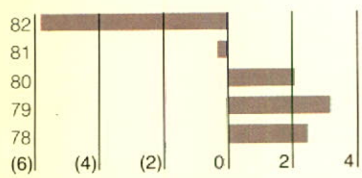
CN Trucking

The financial objectives of CN Trucking were not achieved in 1982. This was mainly because of lower traffic volumes, significant over-capacity in the trucking industry, and inability to recover cost increases through price action. An additional factor was a two-month strike of half of the Division's operating employees. As a result the Division experienced a loss of $ 5.8 million. Employment was down 23.4 per cent and capital expenditures by 85 per cent.

The coming year will be difficult but prospects for improvement exist. Cost cutting measures and modern control systems have produced a leaner, market-responsive organization while the development of Route Canada, a single coast-to-coast service for general freight, promises increased business from national shippers. To permit the further development of Route Canada and increase flexibility in the marketplace, subsidiary companies are now merged into one company holding the assets and licences of the Trucking Division. This became effective January 1, 1983. CN Trucking will continue to provide specialized services in containers, truckload and bulk commodities.

CN Trucking Income (loss)

In Millions of Dollars



CN Hotels and Tower

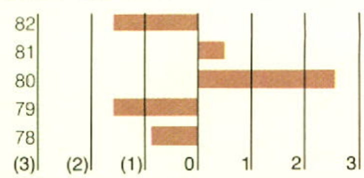
This division was badly hit by the failing economy, which brought about reduced business, particularly in convention and leisure travel, and reduced earnings in 1982. The unfavorable economic conditions projected into 1983 will continue to have a severe impact on the travel and hospitality industry and operating results are expected to remain at the 1982 level.

Good progress was made in 1982 on projects leading to the development and operation of a profitable chain of distinctive hotels in major Canadian cities. These projects included:

- Completion and opening of the 312-room Hotel Newfoundland in a joint venture with Baine, Johnston & Co. Ltd. of St. John's and the Mutual Life Assurance Company of Canada.
- Planning of a 600-room first-class hotel in conjunction with the Toronto Convention Centre complex scheduled for opening in 1985.
- Planning for the redevelopment of the Hotel Macdonald in Edmonton. The historic section of the hotel will be retained and the Macdonald expanded into a 400-room first-class hotel, managed by the division under contract.
- Preparations for ending the arrangements under which Hilton Canada manages The Queen Elizabeth in Montreal and the Hotel Vancouver, and for the full integration of these hotels into the CN chain on January 1, 1984.
- Development of a new identity, designed to project a distinctive image for CN Hotels with emphasis on the individuality of each hotel. This program includes the redevelopment of sales and advertising material, guest supplies and personnel uniforms.
- During 1983 it is planned to continue the major restoration and upgrading programs at the Château Laurier, The Queen Elizabeth and Hotel Vancouver; advance the development of the Toronto hotel and conclude arrangements to establish an international reservation system, complementing the present Instant Reservation Service of CN Hotels.
- The continued development of exciting, educational and entertaining exhibits and attractions, complemented by high standards of food and service, will enable CN Tower to benefit from the new business to be generated by the Toronto Convention Centre development and retain its image as Toronto's dominant tourist attraction.

CN Hotels and Tower Income (loss)

In Millions of Dollars



An identity change requires extensive background work. In this picture, a range of items illustrating the new identity program for CN Hotels is being set up for the photographer.

CN Marine Inc.

Planning and operations of CN Marine throughout 1982 were based on two broad business objectives: first, to improve the effectiveness and efficiency of existing CN Marine resources and, second, to ensure future resources will meet customer needs. In this context, the company adjusted sailings to match the traffic offering and took other steps to minimize the effect on business of a declining economy.

Passenger and automobile traffic decreased on all routes in 1982 and were, on average, seven and five per cent lower than 1981. Commercial vehicles handled on the North Sydney – Port-aux-Basques route, including domestic container traffic, increased by 11 per cent. Commercial traffic declined on other routes, however, for a net decrease of seven per cent.

Nova Scotia – New England operations are being consolidated for 1983, with one ship operating on the shorter route replacing the two ships operating in 1982. To meet capacity requirements, the Division decided to purchase, and modify a vessel which had been on charter for the peak summer season on the Gulf and place it in year-round Fundy service. Gulf service summer requirements will be protected by transferring available vessels until the construction of a major new Gulfspan ferry for Nova Scotia – Newfoundland service is completed. A modern, high-capacity icebreaking ferry, the new Abegweit, entered Prince Edward Island year-round service.

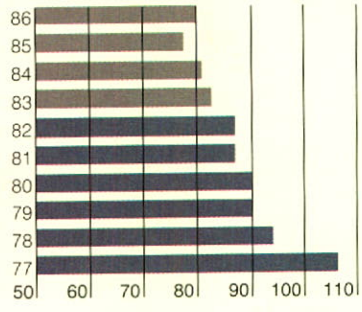
The Newfoundland and Labrador coastal fleet is aging and a study of the services and new vessels was completed in 1982. A contract was awarded for construction of a larger, high-speed passenger vessel to serve the south coast of Newfoundland, as one element in the replacement process.

A number of major programs to improve fuel efficiency were initiated, including the conversion of vessels in the fleet to consume heavier and less costly fuel, and plans were advanced for the installation of a fuel-blending facility at Port-aux-Basques, Newfoundland.

The contribution of CN Marine to corporate income increased significantly in 1982. Income of the Division was $ 16.5 million compared with $ 9.3 million in 1981.

CN Marine Inc.
Cost per Unit

In Constant 1982 Dollars



The Abegweit joined the fleet in 1982 to run between Borden, P.E.I. and Cape Tormentine, N.B. She's the largest vessel in that service, with a capacity of 250 motor vehicles.

CN Exploration

CN Exploration turned in a strong financial and operational performance and demonstrated significant growth potential in its first full year of operation. In 1982 the Division concentrated on CN lands adjacent to properties already producing oil and gas in Western Canada. Thus far 57 wells have been drilled for operation by CN Exploration and only three of these have had to be abandoned. The 54 producing wells, together with other CN-owned, but jointly-operated, wells, totalled 95 at year end.

The construction of a treatment plant at Cactus Lake, Saskatchewan, was started in the Fall of 1982 and the plant is due to be in operation early in 1983. Significant productivity improvement is expected from this project. The Division earned income of $ 11.1 million in 1982, and the prospects of an improved profit in 1983 and subsequent years are good. In light of the present world crude oil surplus, and anticipated price decreases, CN Exploration will proceed cautiously with investment, exploration and development.

To meet the company's field management and engineering and production requirements, offices were opened and staffed in Kindersley, Saskatchewan and Calgary, Alberta.

The coming year will see a higher level of seismic and drilling activities in Western Canada, with a continued high level of concentration in the province of Saskatchewan.

Real Estate

Real Estate made good progress in 1982 in spite of the poor economic climate. Contribution to corporate income from the operations of the two-year-old Division was $ 11.3 million, an increase of $ 0.8 million over 1981.

Construction commenced on the Toronto Convention Centre complex for which the Division has developmental responsibility.

The CN Communications building at 151 Front Street West, Toronto, and adjacent to the convention centre site, is undergoing a minor facelift and plans for commercial development of the street level space are being evaluated.

Planning went ahead on the redevelopment of the Hotel Macdonald site in Edmonton. Two office towers containing approximately 102,200 square metres of office space are planned for the site.

A planning study was commissioned and zoning negotiated for a proposed residential/commercial development of a 47 hectare (116-acre) parcel of land located in East-end Montreal.

Major sites in Toronto, Winnipeg and Edmonton are at various stages of development and planning. In Eastern Canada, a number of sites are being evaluated for potential development, including right-of-way air rights in the Halifax area.

Real Estate continues to provide appropriate and efficient services to the other Divisions of CN. These services include tax administration, the administration of approximately 10,000 leases and 20,000 licences, land acquisition and property titles.

Successful drilling in 1982 put CN solidly into the oil business. Photos illustrate drilling, (center page), pumping (top left), and servicing (top center).

CN's Real Estate Division has become a major developer. It has taken on the Toronto Convention Center project, which includes a CN Hotel and an office building. A model of the project is shown at top right.

Bottom photo shows the construction site as seen looking straight down from the CN Tower.

CANAC's wide range of services include personnel training. Here, a group of employees of the National Railways of Zaire is shown in class at Charny, Quebec.

CNM Inc.

The marine business ventures grouped under CNM Inc. were adversely affected by the slack economy and particularly by the delays in oil exploration activity off the East Coast.

The Newfoundland Dockyard, along with most Canadian ship repair yards, experienced a difficult year. Competition was fierce for the diminished repair market in 1982, and profit margins very low. Work won by the yard was comparable in volume with previous years but the amount of work, and employment, fluctuated widely throughout the year. Work on the syncrolift project, a marine elevator and a three-berth repair facility, started in January, 1982, with good progress having been made by year end. Completion is scheduled for the Fall of 1983 and the new facilities are expected to produce a substantial improvement in the efficiency and capability of the Yard.

CANAC

CN's consulting arm broadened its international activities in 1982 and posted the eleventh consecutive year of profitable performance. This was accomplished in spite of an increasingly competitive international environment, postponement of some projects because of depressed economic conditions and an attempted coup d'état in one of its project countries. (Ghana).

CANAC ventured into new territory during the year by reaching an agreement with the state-owned Civil Engineering Construction Corporation of the People's Republic of China for joint projects around the world. Pursuit of possible contracts in Yugoslavia also represented a new initiative by CANAC.

CANAC stepped up its marketing activities and made or renewed representation in a number of countries including Nigeria, Zimbabwe, Tanzania, Saudi Arabia, Brazil, Argentina, Chile, Peru, Colombia, India, Indonesia, China, Malaysia and Australia.

Drawing upon the in-depth expertise available within CN, CANAC also entered a new field of activity – "Container Consulting" — when it signed a contract with the State Railway of Thailand in September 1982. Funded by the World Bank in Washington, this project covers the design and supervision of construction of a new inland container terminal. The work is to be carried out in conjunction with a Canadian engineering firm and a local Thai engineering firm. A team of twelve CANAC specialists has been assigned to this project.

The successful completion of a substantial training contract for the National Railways of Zaire provided the basis for expanding penetration of this new market area.

The Canalog division, handling CANAC's domestic activities, continued its good performance during 1982. An umbrella agreement was negotiated with VIA Rail Canada for all work undertaken on behalf of this client. Canalog also stepped up activities in the promising area of railway electrification studies, working with a Canadian and a Swedish consulting firm.

CANAC also expanded its geographical coverage and broadened the range of services offered to other nations, including the active marketing of management information systems and commercial telecommunications. CANAC's international presence now encompasses the Indian subcontinent and South East Asia as well as Africa and South America. The diversification program begun in 1982 is expected to begin to bear fruit in 1983 and to provide an even broader base of activities for the following years.

Foreign Activities

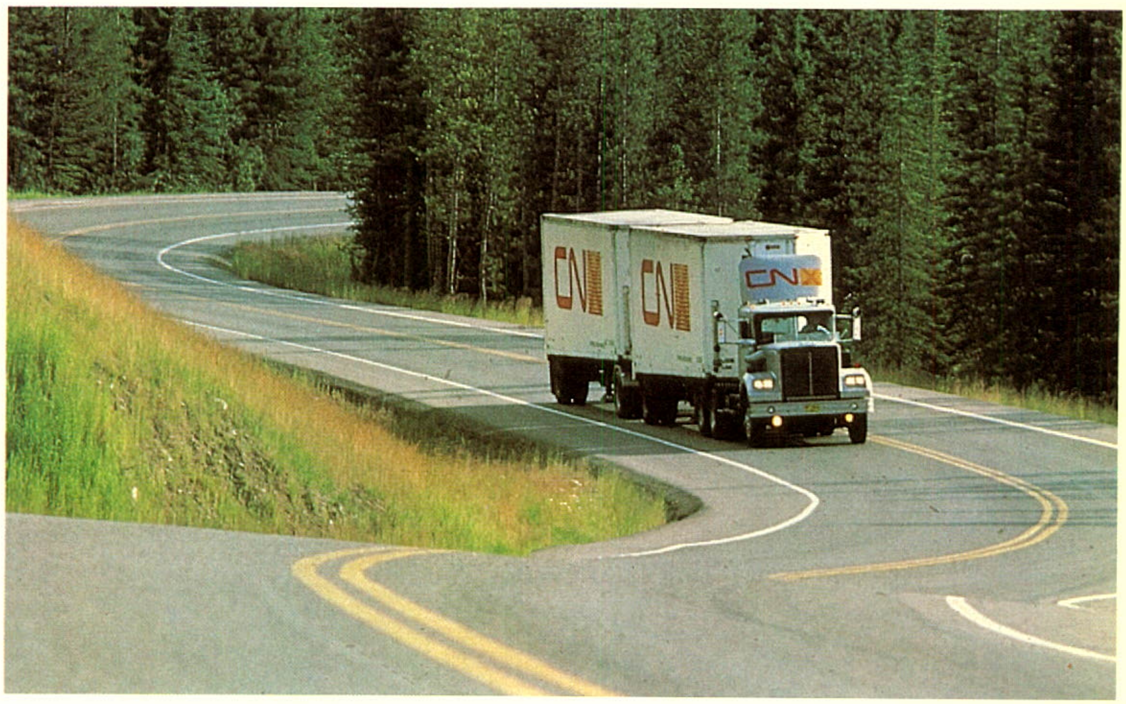
In accordance with Canadian Government guidelines concerning the commercial practices of Crown corporations in international trade, the Company is required to disclose in its annual report the names of its agents in foreign countries as well as the aggregate of all remuneration paid to such agents.

In its consulting activities during 1982, the System was represented in Mexico by Amexder, S.A. de C.V. in Colombia by Antonio Soriano Franco y Compania S. En C., in Ecuador by Dr. Mario A. Gomez de la Torre, and in Panama by Mr. Enrique Williams. No remuneration was payable or paid to these representatives.

CN Express (CNX)

CNX concentrated on trucking in 1982, with highway routes stretching from coast to coast, and advertising and promotion appealing to shippers of heavy weight merchandise. In many areas pup trailers, like the ones in the photo below, were used for their high productivity and flexibility.

In terms of improvement over the previous year, CN Express has continued its "success story" of 1981. Dramatic improvement in operational efficiency has resulted from successful implementation of a market concentration plan which has focussed on improving the profitability of traffic handled. The establishment of the terminals as fully integrated business units, responsible for achieving the objectives set in customer-oriented, terminal-based sales/operations plans, was an important factor in improving traffic profitability.



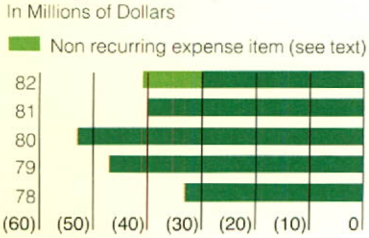
Significant progress has been made towards changing the Division into an LTL (Less than Trailer Load) trucking operation. The shift to trucking will continue in 1983, with particular emphasis on bringing the average shipment weight closer to the level now handled in Western Canada – over 225 kilograms (500 lbs.).

CN Express improved its efficiency and reduced losses by $ 10.1 million to $ 29.8 million in 1982 (excluding the provision of $ 10.8 million on account of the restructuring of express and trucking operations).

Annual savings of more than $ 2.0 million will be achieved as a result of moving operations in Toronto to a new terminal in December, 1982. However, the termination by Air Canada, in January, 1983, of the joint operation of Air Express service will reduce income by about $ 3.5 million.

CN Express (Loss)

In Millions of Dollars



People and Organization

The people who make up Canadian National continued in 1982 to be the major factor in the progress and accomplishments of the Company. Recognition of this fact also continued to be an important part of Company planning and programs. This emphasis on the importance of people will be strengthened in 1983 and subsequent years through policies and processes aimed at recognizing, encouraging and rewarding competence and dedication at all levels in the organization.

Organization Structure Change:

In the spirit of the above, human values continued to be central to the reorganization and decentralization of CN'S management structure which was essentially completed in 1982. As part of this process some units previously reporting directly to Corporate Headquarters were transferred to CN Rail. Some corporate functions were decentralized by the creation of separate divisional units.

Units transferred to CN Rail included Management Services, Purchases and Materials Management, Medical and Police. The functions of Law & General Claims, Human Resources and Labour Relations were decentralized.

The position of Vice-President, Administration was also transferred to CN Rail and the transferred units mentioned above, as well as one of the decentralized units – Law & General Claims – report to that position. In addition, a new position of Vice-President, Employee Relations, embracing both the personnel and labour relations activities, was established in CN Rail, reporting to the President and Chief Operating Officer of the Division, and the former Corporate position of Vice-President, Labour Relations was abolished. Appropriately modified Law and Human Resources units remain as Corporate responsibilities.

As part of the reorganization process a Task Force was commissioned within CN Rail to carry out a major review of existing administrative structures and processes and to recommend future action. The findings of the Task Force will be presented early in 1983 and will serve as the basis for some new approaches to general and functional management structure and issues over the next three to five years.

CN Employee Suggestion Plan:

For many years, the Company has had a suggestion plan to encourage employees to contribute to the improvement of productivity and the work situation. In 1982, the positive attitude of employees towards the plan was well demonstrated.

During the year, 549 suggestions were processed and a total of $ 145,260 was paid out in awards. Seventeen awards were "major" – more than $ 2,000. One award was for $ 12,500 and two for $ 10,000 each. First year net savings to CN from suggestions adopted in 1982 will be more than $ 1.0 million – an increase of about $ 300,000 over the previous year.

Pensioners:

Those of the CN family who retired before 1974 received cost-of-living increases in 1982. This is the 12th consecutive year that increases or adjustments designed to cushion the impact of inflation on CN pensioners has been made. Cost of these benefits since 1971 has been about $ 262.6 million.

During 1982, employees who were previously given the option of transferring 120 months of 1935 Pension Plan service to the more advantageous 1959 Pension Plan, received the further option of transferring their remaining 1935 Plan service to the 1959 Plan.

At December 31, 1982, the total of CN pensioners and beneficiaries was 46,637. Over the past decade the number of pensioners in any one year has been on the increase while the number of employees has been on the decline. The result has been a significant change in ratio of pensioners to employees. In 1972 there were 2.19 employees for each person on pension; in 1982 there were 1.56 employees for each person on pension.

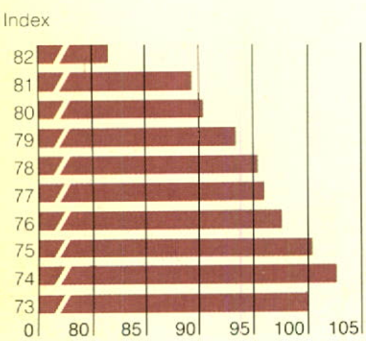
Labour relations

National labour negotiations were concluded during the year with the five major railway bargaining groups, as well as with other non-aligned bargaining groups, encompassing approximately 53,000 employees. The agreements signed were for a two-year period and provided for a 12.0 per cent wage increase effective January 1, 1982, and a nine per cent increase effective January 1, 1983. Also included in the contracts was a provision for a cost of living adjustment (COLA). Improvements in the areas of annual vacations, life insurance, sickness benefits and shift differentials were also negotiated with a new Extended Health Care Plan to be introduced in 1983.

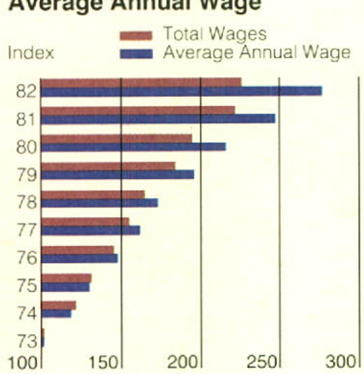
The implementation of Bill C-124– The Public Sector Compensation Restraint Act – on June 29, 1982 (applicable to all CN employees in Canada), limited 1983 wage increases to six per cent, and provided for a manadatory extension of the contracts for a third year with an increase of five per cent to basic rates of pay. The Bill also eliminated the 1983 COLA provisions. All other terms of the contracts remain as negotiated.

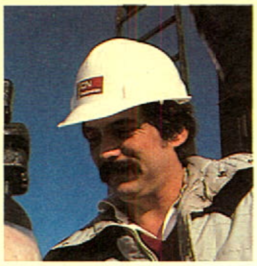
On June 30, 1982, the Canada Labour Relations Board rendered a decision in respect of the Canadian Brotherhood of Railway, Transport and General Workers' 1976 application for certification of certain designated middle-management and non-unionized positions. The result was the inclusion of a number of regional clerical positions into the unionized ranks.

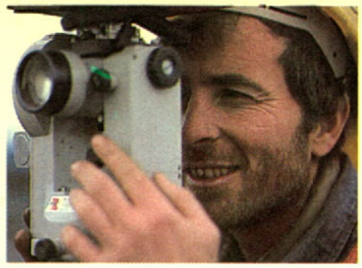
Average Number of Employees



System Wage Cost and Average Annual Wage







Hard hats and hard data. People make a corporation hum. Across the top, Exploration, Maintenance of Way, Engineering.

Below, a train dispatcher in Edmonton is shown seated at the RTC, an advanced computer-assisted dispatching system, designed by CN Rail.

Results of Operations

The system incurred a loss of $ 223.0 million in 1982 compared with net income of $ 193.2 million in 1981 and $ 188.2 million in 1980. The main factors which contributed to the loss were the depressed North American economy which had a dramatic impact on the volume of rail traffic, the increased carrying of export grain at statutory rates well below cost and increased interest expense. The 1982 loss included provisions amounting to $ 97.4 million for impairments in the value of investments in Eurocanadian Shipholdings Limited and Central Vermont Railway Inc. and $ 10.8 million anticipated costs related to the re-structuring of the express and trucking operations. Also, the results include payments from the Government of Canada for certain uneconomic rail services provided in earlier years and revenues relating to a prior period under the contract with VIA Rail Canada Inc. These amounted to $ 100.0 million in 1982, $ 58.7 million in 1981 and $ 20.5 million in 1980.

The decline in the 1981 income compared with 1980, after exclusion of the prior year payments, was in part due to the obligation to carry grain at fixed statutory rates while the cost of moving such traffic continued to increase and was also due to lower business activity, notably in the second half of the year, as a result of the recession in Canada.

Based on preliminary indications, the operating loss for the first quarter of 1983 is expected to be somewhat less than the loss of $ 67 million in the first quarter of 1982.

No dividend was provided in 1982 as a result of the loss. However, in 1981 and 1980, in accordance with applicable legislation, the Company provided dividends of 20 per cent of net income to the Government of Canada in the amounts of $ 38.6 million and $ 38.5 million respectively.

The results for each division which are discussed below, include the interest expense allocated to such divisions which aggregated $ 240.4 million in 1982, up $ 69.6 million over 1981 and $ 129.5 million over 1980. These amounts reflect higher borrowings and higher interest rates as well as reduced investment income.

CN Rail

CN Rail's loss for 1982 totalled $ 34.9 million, compared with income of $ 215.0 million in 1981 and $ 235.2 million in 1980. The principal factors in the 1982 decline were a continuation of the depressed economic conditions and the resulting decrease in traffic volume, and the increase in interest expense. In 1981, the deterioration in economic conditions occurred in the second half of the year and had a similar depressing effect as in 1982.

Railway operating revenues amounted to $ 2,961.5 million in 1982, down $ 113.1 million from 1981 but $ 297.1 million higher than 1980. Freight services revenue was the major factor in both the 1982 and 1981 revenue changes.

In 1982 freight services revenue fell by $ 197.5 million mainly from lower traffic volume which occurred in all commodity groups except grain, because of the general economic recession. The revenue effect of the lower traffic volume was partially offset by rate increases and higher payments from the Government of Canada both for current and prior years' subsidized operations. In 1981, freight services revenues rose by $ 271.6 million, mainly because of rate increases. Traffic volume declined in nearly all commodity groups because of the general economic recession and strikes in several industries. The 1981 revenues also reflected the increased recoveries from VIA Rail Canada Inc. for services provided in the current year and for prior periods, and higher payments from the Government of Canada both for current and prior years' subsidized operations.

Expenses in 1982 were $ 2,996.4 million, up $ 136.8 million from 1981 and $ 567.3 million from 1980. The 1982 increase was mainly attributable to inflation-related cost increases in labour rates, fuel and other material prices and interest costs. However, the effect of these increases was moderated by cost control measures and the effect of the reduced workload. Similar inflationary pressures were the principal factors in the 1981 expense rise.

TerraTransport

TerraTransport's loss in 1982 was $ 32.4 million, $ 3.6 million higher than in 1981 and $ 5.5 million over the 1980 level. The effect of inflationary increases in expenses was the main cause of the higher losses.

Grand Trunk Corporation

Grand Trunk Corporation incurred a loss of $ 54.5 million in 1982 compared with income of $ 40.5 million in 1981 and $ 9.2 million in 1980. The main factors in the 1982 results were the $ 35.9 million write-down to its estimated realizable value of Central Vermont Railway Inc. in anticipation of its intended sale and the deterioration in income resulting from the reduction in traffic volumes and the impact of inflation on wages and fringe benefits. Rate increases and reductions in the work force tempered the effects of the reduced traffic and inflation in 1982. The most significant factors in the 1981 income improvement were higher revenues and the containment of expenses.

Revenues amounted to $ 415.4 million in 1982, $ 468.6 million in 1981 and $ 338.3 million in 1980. Of the decrease of $ 53.2 million in the 1982 revenues $ 28.9 million was attributable to the non-consolidation of Central Vermont, the remainder of the decrease was influenced by the reduction in traffic volume, which, with the exception of automotive traffic, affected virtually all the commodity groups. Increased freight rates and the effect of the translation of U.S. dollars at higher premiums partially offset the full-year effect of the decreases. In 1981, the revenue increase of $ 130.3 million reflected the full-year effect of revenue from the Detroit, Toledo and Ironton Railroad Company, acquired in June, 1980 and the additional revenue from The Detroit & Toledo Shore Line Railroad Company acquired in April, 1981. Excluding such revenues, there was a revenue improvement of $ 61.3 million in 1981 with freight rate increases being the most significant factor, while the remainder resulted mainly from increased traffic volumes of automobiles and parts, chemicals and primary metals.

Expenses totalled $ 469.9 million in 1982, $ 428.1 million in 1981 and $ 329.2 million in 1980. The 1982 expenses included the estimated loss of disposing of the Central Vermont and excluded the operating expenses of this property. The net effect of these offsetting items served to increase the expenses by $ 6.4 million. The balance of $ 35.4 resulted mainly from higher wage rates and fringe benefit costs and the exchange conversion factor. These increases were partially offset by savings from management actions to contain expenses and by the effect of the reduced workloads. In providing comparability between 1981 and 1980 it is necessary to exclude the expenses of the DTI and DTSL. After such exclusion there was an increase of $ 33.5 million in 1981 as compared with 1980. Labour rate increases and higher fuel prices were the most significant factors in the increase. These cost increases were tempered by manpower reductions despite the higher traffic volume.

CN Enterprises

CN Enterprises, which includes CN Communications, CN Trucking, CN Hotels and Tower, CN Marine Inc., CN Exploration, Real Estate and Other Businesses, earned income of $ 63.9 million in 1982, compared with $ 56.5 million in 1981 and $ 69.1 million in 1980. Details for the individual divisions are discussed below.

CN Communications

CN Communications' income in 1982 was $ 32.1 million, compared with $ 31.9 million in 1981 and $ 33.3 million in 1980. The $ 0.2 million increase in 1982 was largely due to higher revenues resulting from rate action which were offset for the most part by inflationary increases in expenses. The $ 1.4 million decrease in 1981 occurred mainly because revenue growth was not sufficient to offset increased interest and depreciation expenses.

CN Trucking

CN Trucking had losses of $ 5.8 million in 1982 and $ 0.3 million in 1981 and income of $ 2.1 million in 1980. This downtrend was caused mainly by higher inflation and the general decline in economic activity. The 1982 results also reflected a seven-week strike in Ontario.

CN Hotels and Tower

CN Hotels and Tower's loss amounted to $ 1.6 million in 1982, compared with income of $ 0.5 million in 1981 and $ 2.6 million in 1980. The lower occupancy rate at all hotels was the most significant factor in the income reduction in 1982. The 1981 income was down because of a loss on the sale of a hotel and lower occupancy rates at most of the hotels.

CN Marine Inc.

CN Marine Inc.'s income in 1982 was $ 16.5 million, up $ 7.2 million from 1981 and up $ 7.8 million from 1980. This uptrend largely reflects the results of rate increases and productivity improvements.

CN Exploration

CN Exploration earned income of $ 11.1 million in 1982, compared with $ 4.1 million in 1981 and $ 2.7 million in 1980. The improvement in the 1982 income largely reflected increased oil sales resulting from successful exploration and drilling programs. In 1981 the improvement reflected the commencement of oil sales and the higher income from leases.

Real Estate

Income from the Real Estate Division amounted to $ 11.3 million in 1982 compared with $ 10.5 million in 1981 and $ 18.7 million in 1980. The 1982 increase was due to higher income from property management which more than offset the reduction in profit from land sales. In 1981 the reduction was due to the decrease in profit realized from property sales.

Other Businesses

Other Businesses earned income of $ 0.3 million in 1982 compared with income of $ 0.4 million in 1981 and $ 0.9 million in 1980.

CN Express

CN Express' loss was $ 40.6 million in 1982, compared with $ 39.9 million in 1981 and $ 53.1 million in 1980. The 1982 loss included an expense provision of $ 10.8 million for the anticipated costs related to the re-structuring of the express and trucking operations. Excluding this, there was an improvement of $ 10.1 million over 1981 and $ 23.3 million over 1980. This improvement trend resulted from the continued reduction of uneconomic services coupled with stringent expense control.

Miscellaneous

The loss in the Miscellaneous sector in 1982 was $ 124.5 million, $ 76.4 million greater than in 1981 and $ 81.4 million greater than in 1980. The principal item affecting the 1982 increase in loss was the $ 61.5 million provision for the impairment in the value of the Eurocanadian Shipholdings Limited (CAST) investment. Also significant were the higher unassigned interest costs which were offset in part by U.S. exchange fluctuations. Inflationary increases in expenses and a non-recurring profit on the sale of investments in 1980 accounted for the difference in 1981 as compared with 1980.

Income Taxes

Because of the loss in 1982, there was no income tax expense for 1982. Income taxes otherwise payable with respect to 1981 in the amount of $ 91.1 million, and with respect to 1980 in the amount of $ 86.7 million, have been eliminated through utilization of tax benefits pertaining to prior years' losses, which reductions have been acounted for as extraordinary items. See Note 10 of Notes to Consolidated Financial Statements which indicates that such benefits are available to reduce taxable income of future years. The Company expects that such benefits will provide reductions in income taxes in amounts covering substantially all taxes on income through 1987.

Liquidity and Capital Resources

The following table compares the Company's net cash flow for the years 1980 to 1982.

	1982	1981	1980
	(in millions of Canadian dollars)		
Funds Provided:			
From operations	$113.0	$421.2	$392.4
Issuance of long-term debt and obligations assumed under capital leases	536.1	488.0	86.9
Issuance of capital stock	4.3	6.6	26.7
Long-term investment maturing in one year	—	—	108.0
Other	47.4	48.4	49.1
Funds provided	700.8	964.2	663.1
Less: used for			
Additions to properties	648.1	662.5	558.1
Investments	4.7	11.7	115.0
Reduction of long-term debt and capital lease obligations	42.6	227.5	155.4
Dividend	—	38.6	38.5
Other	6.8	4.6	—
Funds Used	702.2	944.9	867.0
Increase (decrease) in working capital	(1.4)	19.3	(203.9)
Net change in working capital items other than cash	(48.9)	(78.8)	135.9
Cash flow	$(50.3)	$(59.5)	$(68.0)

The relatively low level of funds provided from operations was the principal reason for the negative cash flow this year while deferral of new long-term borrowings because of market conditions resulted in negative cash flows in 1980 and 1981. The cash deficiencies in these three years were financed by short-term bank borrowings. At December 31, 1982, these bank loans amounted to Canadian $ 0.6 million and U.S. $ 61.5 million. The Company has arrangements with a number of Canadian and U.S. banks which provide lines of credit in excess of the Company's anticipated short-term borrowing requirements.

During 1982 long-term debt issues included U.S. $ 350 million and SFr. 100 million, the proceeds of which were used principally to finance capital expenditures. In March, 1983, the Company issued and sold U.S. $ 100 million of long-term debt in the United States. In the same month, the Company arranged refunding of its two Swiss franc bank loans each in the amount of SFr. 100 million due 1985 and 1987 respectively. These Swiss franc transactions will result in a lower interest cost to the Company and a modest lengthening in the term of this portion of its outstanding debt. Subject to market conditions, the Company expects to sell additional long-term debt in the capital markets, but it is unable to predict the amounts, nature and timing of such borrowings. In addition, as explained in Note 5b to the notes to the Consolidated Financial Statements, a retroactive increase in debt to the Government of Canada and reductions in retained earnings were recorded in 1982.

The ratio of long-term debt (including current portion) to the sum of long-term debt and shareholder's equity at the close of the last three years was as follows:

	1982	1981	1980
Debt ratio	44.5	36.8	36.1

The impact of the 1982 loss and the issuance of new debt to finance the major part of the capital expenditures in the year resulted in the Company's debt ratio rising from 36.8% to 44.5%. With a view to containing 1982 long-term borrowings, the Company reduced its planned capital expenditures for the year from approximately $ 900 million to about $ 650 million. Planned capital expenditures for 1983 are approximately $ 800 million. In addition, the Company anticipates that capital expenditures for 1984 and 1985 will aggregate approximately $ 2 billion. At present the Company expects that a certain portion of these expenditures will be funded through borrowings. The 1983 to 1985 capital program includes funds required for the expansion of roadway property in Western Canada, renewal of basic plant, purchase of rolling stock and other equipment and improvement of operating efficiency. The extent of such expenditures and, in particular, the related borrowings will be dependent in major part upon operating results, the enactment of legislation on the transport of grain and other economic factors.

At December 31, 1982, the Company had a commitment to purchase rail over the next 19 months at an aggregate cost of $ 72.5 million. In addition, there were commitments for capital expenditures of $ 76.5 million for railway ties and $ 4.8 million for rolling stock.

Inflation

The Company was faced with double-digit inflation in 1982. Increases in material prices and wage rates were in the 12% range. These were the lowest overall annual rates of inflation faced by the Company in the 1980's. More particularly, the rate of increase in material prices eased significantly, mainly due to a sharp decline in the rate of increase of fuel prices in 1982. Nevertheless, the 1982 impact of inflation on the Company was heightened by the decline in the volume of business activity.

The problem of dealing with inflation at a time when volumes are declining represents a challenging test for management. In 1980 and 1981, when traffic levels were rising, the Company sought to defray the impact of rising costs by improving its facilities and efficiency and by increasing rates for its services. In 1982 the recession and the drop in volume reduced the flexibility and impact of increasing rates. Also, reduced internally-generated funds limited the capital available to improve facilities and required the Company to improve productivity and otherwise decrease expenses to counter inflation.

The Company responded to the combined effect of inflation and volume decline by curtailing the level of employment, streamlining services, cancelling or deferring projects, accelerating activities that improve operating efficiency and productivity, and reducing planned levels of capital expenditures. The Company was able to maintain a level of capacity that not only allowed it to meet its requirement to service existing customers' needs, but one that will permit the Company to respond to a future improvement in business conditions. Inflation also has a significant impact on future capital requirements.

In June, 1982, the Government of Canada announced its six and five percent policy guidelines to combat inflation. This policy is intended to limit wage and price increases to six percent in the first year and to five percent in the next year of the program and is applicable to the public sector and firms which are under the Federal Government's jurisdiction. The wage guidelines became law under the Public Sector Compensation Restraint Act enacted August, 1982. The price guidelines were applied to railway price increases and became effective in the second half of 1982. The wage restrictions will become effective only in 1983, after expiration of the 1982 wage agreement. For 1983, the Company's wage costs and price increases will be subject to the Government's anti-inflation policy. There is no guarantee that all cost increases to the Company, particularly those of the private sector, will fall within the guidelines.

In December 1982, the Canadian Institute of Chartered Accountants issued recommendations for the reporting of certain effects of changing prices on an enterprise, including the effect on future capital requirements. The Recommendations do not change the basic historical cost financial statements but provide for supplementary information about the effects of changing prices. For Canadian National, the recommendations will be effective in 1983 and the Company's 1983 annual report will include this supplementary information.

Five year financial and statistical summary

		1982	1981	1980	1979	1978
Operations	Revenues	$ 4,165.0	$ 4,301.3	$ 3,717.9	$ 3,343.2	$ 2,962.4
	Operating income	94.3	355.2	267.4	244.6	210.3
	Interest expense – net	240.4	170.8	110.9	96.4	95.2
	Net income (loss)	(223.0)	193.2	188.2	169.7	132.7
	Dividend	—	38.6	38.5	41.6	27.2
	Return on average investment %	0.3	7.8	6.8	6.6	5.8
Capital Expenditures	Additions to properties	648.1	662.5	558.1	558.3	375.0
Assets and Working Capital	Current assets	1,006.9	1,063.4	1,018.3	870.4	726.1
	Working Capital (Deficiency)	(9.0)	(7.6)	(26.9)	176.9	157.4
	Properties	5,193.5	4,832.1	4,399.0	3,971.2	3,628.3
	Total assets	6,336.0	6,133.8	5,645.7	5,143.6	4,531.1
Capital Structure	Long-term debt (including current portion)	2,274.8	1,784.2	1,637.9	1,564.8	1,339.9
	Equity	2,840.9	3,059.6	2,898.5	2,722.2	2,489.8
	Debt ratio %	44.5	36.8	36.1	36.5	35.0
Traffic	Revenue ton miles freight (billions)	77.8	87.9	88.0	84.6	79.2
	Express shipments handled (millions)	2.3	3.5	6.9	8.9	8.5
Employees	Average number for year	67,113	73,287	74,014	76,592	78,247
	Average annual wage per employee	$28,806	$25,906	$22,720	$20,589	$18,260

Consolidated Financial Statements

Consolidated Statement of Income

		Year ended December 31 1982	1981	1980
		(in thousands)		
CN Rail	Revenues	$2,961,504	$3,074,585	$2,664,373
	Expenses	2,996,403	2,859,619	2,429,125
	Income (loss)	(34,899)	214,966	235,248
TerraTransport	Revenues	46,799	49,078	44,112
	Expenses	79,193	77,901	70,983
	Loss	(32,394)	(28,823)	(26,871)
Grand Trunk Corporation	Revenues	415,367	468,628	338,322
	Expenses	469,872	428,133	329,168
	Income (loss)	(54,505)	40,495	9,154
CN Enterprises				
CN Communications	Revenues	244,016	217,641	192,335
	Expenses	211,919	185,713	158,990
	Income	32,097	31,928	33,345
CN Trucking	Revenues	88,544	99,142	80,298
	Expenses	94,302	99,403	78,165
	Income (loss)	(5,758)	(261)	2,133
CN Hotels and Tower	Revenues	56,386	58,184	56,598
	Expenses	58,016	57,702	54,021
	Income (loss)	(1,630)	482	2,577
CN Marine Inc.	Revenues	187,623	175,475	163,268
	Expenses	171,116	166,162	154,535
	Income	16,507	9,313	8,733
CN Exploration	Revenues	18,578	7,145	3,833
	Expenses	7,474	3,006	1,155
	Income	11,104	4,139	2,678
Real Estate	Revenues	19,711	17,779	23,650
	Expenses	8,415	7,255	4,919
	Income	11,296	10,524	18,731
Other Businesses	Income	266	397	882
Total CN Enterprises	Income	63,882	56,522	69,079
CN Express	Revenues	96,266	105,743	126,918
	Expenses	136,891	145,639	180,050
	Loss	(40,625)	(39,896)	(53,132)
Miscellaneous	Loss	(124,494)	(48,114)	(43,066)
Income (loss) before income taxes and extraordinary item		(223,035)	195,150	190,412
Income taxes		—	93,120	88,922
Income (loss) before extraordinary item		(223,035)	102,030	101,490
Reduction in income taxes on application of prior years' losses		—	91,140	86,672
Net income (loss)		$ (223,035)	$ 193,170	$ 188,162

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

			December 31 1982		1981
			(in thousands)		
Assets					
Current Assets	Accounts receivable		$ 370,414		$ 451,759
	Material and supplies		449,879		436,621
	Other current assets		186,636		175,022
			1,006,929		1,063,402
Insurance Fund			4,086		34,531
Investments			42,431		94,046
Properties			5,193,494		4,832,112
Other Assets and Deferred Charges			89,031		109,672
			$6,335,971		$6,133,763
Liabilities					
Current Liabilities	Bank loans and other indebtedness		$ 114,005		$ 63,721
	Accounts payable		537,122		595,134
	Accrued charges		240,357		224,540
	Current portion of long-term debt		34,043		35,814
	Other current liabilities		90,436		151,821
			1,015,963		1,071,030
Provision for Insurance			4,086		34,531
Other Liabilities and Deferred Credits			229,891		215,832
Long-Term Debt			2,240,774		1,748,378
Minority Interest in Subsidiary Companies			4,345		4,345
Shareholder's Equity	Capital stock of Canadian National Railway Company; 6,283,902 (1981 - 6,275,302) common shares of no par value authorized, issued and outstanding	$2,486,425		$2,482,125	
	Retained earnings	354,487	2,840,912	577,522	3,059,647
			$6,335,971		$6,133,763

On behalf of the Board: J.H. Horner, Director
J. Maurice LeClair, Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

	Year ended December 31 1982	1981	1980
	(in thousands)		
Balance, beginning of year, as restated (Note 5 b.)	$577,522	$422,986	$273,369
Net income (loss) for the year	(223,035)	193,170	188,162
	354,487	616,156	461,531
Dividend	—	38,634	38,545
Balance, end of year	$354,487	$577,522	$422,986

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

		Year ended December 31		
		1982	1981	1980
		(in thousands)		
	Working Capital (Deficiency), beginning of year	$ (7,628)	$ (26,938)	$ 176,919
Funds Provided	Net income (loss) for the year	(223,035)	193,170	188,162
	Add/(deduct) items not involving the current provision or use of funds			
	– depreciation	239,573	224,224	200,505
	– amortization of capital leases	506	—	—
	– amortization of discount on long-term debt	512	465	767
	– share of net (income) loss retained by investees accounted for by equity method	(1,979)	3,388	2,967
	– provision for impairment of investments	97,407	—	—
	Funds from operations	112,984	421,247	392,401
	Issuance of long-term debt and obligations assumed under capital leases	536,076	487,953	86,952
	Issuance of capital stock	4,300	6,614	26,676
	Net proceeds from disposal of assets and investment	16,236	32,610	27,248
	Repayments of advances and balance of sale of assets	9,587	8,835	8,753
	Working capital of subsidiary acquired	—	2,961	1,429
	Long-term investment maturing within one year	—	—	108,000
	Other	21,605	3,972	11,667
	Total Funds Provided	700,788	964,192	663,126
Funds Used	Additions to properties			
	– owned	611,786	662,540	558,134
	– leased	36,314	—	—
	Investments			
	– acquisition of subsidiaries	—	2,266	48,928
	– purchase of acquired subsidiary bonds	—	—	14,700
	– other	4,673	9,404	51,326
	Working capital of previously consolidated subsidiary	5,229	—	—
	Reduction of long-term debt and capital lease obligations	42,550	227,478	155,350
	Discount on issuance of debentures	1,642	4,560	—
	Dividend	—	38,634	38,545
	Total Funds Used	702,194	944,882	866,983
Increase (Decrease) in Working Capital		(1,406)	19,310	(203,857)
	Working Capital Deficiency, end of year	$ (9,034)	$ (7,628)	$ (26,938)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Introduction

All references in these Notes to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and, unless the context otherwise requires, its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway, marine, telecommunications and other property entrusted by the Government of Canada to the Company for management and operation.

a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries (with the exception of one subsidiary of Grand Trunk Corporation which the Company intends to dispose of and which is accounted for by the equity method), and the Company's share of the assets, liabilities, revenues and expenses of CNCP Telecommunications which is accounted for by the proportionate consolidation method; CN's share in the activities of CNCP Telecommunications represents slightly less than two-thirds of the activities of CN Communications. Also, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada are included in the consolidated financial statements.

Investments in companies in which the Company has less than a majority interest are accounted for by the equity method, where appropriate.

b) Reporting by Division

In presenting the results by division and CN Enterprises, charges for services performed by one division for another, which are made generally at market value, have not been eliminated. Consolidated net income is not affected by this practice.

c) Material and Supplies

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

d) Properties

Properties are carried at cost, which, in the case of properties brought into the System on January 1, 1923, is the aggregate of the values then appearing in the books of the railways now comprised in the System, less a write-down of $262.8 million at the time of capital revision in 1937.

Accounting for railway and telecommunications properties is carried out in accordance with rules issued by the Canadian Transport Commission and the Canadian Radio-television and Telecommunications Commission respectively (Canadian properties), and the Interstate Commerce Commission (United States properties), except, in the case of United States properties, for the application of depreciation accounting to ties, rails, other track material and ballast. Major additions and replacements generally are capitalized with the exception of labour costs relating to track material replacement and interest costs which are charged to expense.

The cost of depreciable assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation except for CN Trucking and CN Hotels and Tower divisions which follow the unit plan whereby gains or losses are taken into income as they occur.

Note 1: Summary of Significant Accounting Policies (Cont'd.)

e) Depreciation

Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis. For railway and telecommunications properties, certain rates are authorized by the Canadian Transport Commission, the Canadian Radio-television and Telecommunications Commission and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	3.25%
Rails	1.15%
Other track material	1.90%
Ballast	4.00%
Road locomotives	4.60%
Freight cars	2.97%
Commercial communication systems	5.68%

Hotel properties are depreciated at annual rates of 2% to 10% and vessels at 5%.

f) Transportation Revenues

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Costs associated with uncompleted movements are generally deferred.

g) Pensions

Current service costs are charged to operations, and funded, as they accrue.

Prior service costs are funded by annual payments covering principal and interest over varying periods to 2006 (2015 in the case of U.S. Plans) and charged to operations on the same basis, net of annual amortization of $4.3 million with respect to the cumulative excess of charges to operations over funding requirements.

h) Foreign Exchange

Assets and liabilities in foreign currencies have been translated into Canadian dollars at current rates except for investments, properties and long-term debt for which historical rates have been used. Income is charged or credited with all exchange differences. Income and expenses of foreign subsidiaries have been translated at average rates during the year except for depreciation provisions which are on the same basis as the related properties.

Note 2: Investments

	Percentage of Voting Interest	December 31 1982	December 31 1981
		(in thousands)	
Companies accounted for by equity method			
Chicago and Western Indiana Railroad Company	20%	$ 6,389	$ 7,191
The Toronto Terminals Railway Company	50%	10,682	10,682
Other		20,483	9,799
		37,554	27,672
Other companies and investments, at cost less provisions for impairment where applicable		4,877	66,374
Total		$42,431	$94,046

During 1982 the Company has made provisions of $97,407,000 for impairment of value in respect of investments in a previously-consolidated subsidiary and another company previously carried at cost. These provisions have been charged to Grand Trunk Corporation expense — $35,893,000 and Miscellaneous loss — $61,514,000.

Note 3: Properties

	December 31, 1982 Cost	December 31, 1982 Accumulated Depreciation	December 31, 1982 Net	December 31, 1981 Cost	December 31, 1981 Accumulated Depreciation	December 31, 1981 Net
	(in thousands)			(in thousands)		
CN Rail	$6,372,440	$2,498,493	$3,873,947	$5,976,969	$2,406,072	$3,570,897
TerraTransport	93,982	45,145	48,837	93,529	41,209	52,320
Grand Trunk Corporation	537,007	131,406	405,601	569,753	143,646	426,107
CN Enterprises						
CN Communications	647,455	237,742	409,713	603,218	215,647	387,571
CN Trucking	64,593	34,803	29,790	66,454	33,105	33,349
CN Hotels and Tower	193,445	66,487	126,958	189,183	61,763	127,420
CN Marine Inc.	206,444	32,518	173,926	176,388	24,311	152,077
CN Exploration	13,704	204	13,500	1,716	52	1,664
Real Estate	42,182	10,830	31,352	28,779	7,976	20,803
Other Businesses	37,157	2,766	34,391	3,048	2,004	1,044
CN Express	52,475	25,773	26,702	71,334	32,084	39,250
Miscellaneous	27,177	8,400	18,777	27,177	7,567	19,610
	$8,288,061	$3,094,567	$5,193,494	$7,807,548	$2,975,436	$4,832,112
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada	$ 875,222	$ 502,867	$ 372,355	$ 860,917	$ 483,508	$ 377,409

At December 31, 1982 the gross value of assets under capital leases included above was $36.3 million and related accumulated amortization thereon amounted to $0.5 million.

Note 4: Long-Term Debt

		Maturity	Currency in which payable	December 31 1982	1981
				(in thousands)	
Bonds, Debentures and Notes	Detroit & Toledo Shore Line 1st Mortgage Bonds	Dec. 1, 1982	United States	$ —	$ 2,434
	Canadian National 5 3/4% 25 Year Bonds (a, b)	Jan. 1, 1985	Canadian	66,242	68,242
	Canadian National 8 3/8% 10 Year Bonds	Nov. 15, 1986	United States	83,232	83,232
	Canadian National 8 7/8% 10 Year Bonds (b)	Mar. 1, 1987	Canadian	49,158	51,185
	Canadian National 5% 27 Year Bonds (a, b)	Oct. 1,1987	Canadian	103,641	107,141
	Canadian National 14 5/8% 10 Year Notes	Dec. 1, 1991	United States	117,817	117,817
	Canadian National 9 1/4% 20 Year Sinking Fund Debentures	Mar. 15, 1998	United States	133,533	133,533
	Canadian National 8 3/8% 25 Year Sinking Fund Debentures	July 1, 2002	United States	105,935	105,935
	Canadian National 9 7/10% 25 Year Sinking Fund Debentures	July 15, 2004	United States	174,940	174,940
	Canadian National 14% 25 Year Sinking Fund Debentures	Jan. 15, 2006	United States	178,783	178,783
	Canadian National 15% 25 Year Sinking Fund Debentures	June 1, 2006	United States	181,238	181,238
	Canadian National 16 1/4% 25 Year Sinking Fund Debentures	Mar. 1, 2007	United States	183,053	—
	Canadian National 14 3/4% 30 Year Sinking Fund Debentures	Sept. 1, 2012	United States	247,984	—
	Buffalo and Lake Huron 5 1/2% 1st Mortgage Bonds	Perpetual	Sterling	795	795
	Buffalo and Lake Huron 5 1/2% 2nd Mortgage Bonds	Perpetual	Sterling	1,228	1,228
	Total Bonds, Debentures and Notes			1,627,579	1,206,503
Government of Canada Loan and Advances (c)	Government of Canada consolidated loan (d)		Canadian	275,763	282,542
	Canadian Government Railways advances for working capital		Canadian	14,104	14,108
	Total Government of Canada Loan and Advances			289,867	296,650
Other	Amounts owing under equipment purchase agreements (e)		United States	207,282	227,845
	Bank loans 7 3/4% (f)		Swiss Francs	129,158	64,474
	Capital lease obligations (g)		Various	32,587	—
	Promissory note 9 5/8% (h)		Canadian	1,957	2,189
	Total Other			370,984	294,508
				2,288,430	1,797,661
	Less:				
	Unamortized discount on long-term debt			7,077	5,947
	Current portion of long-term debt, at historical exchange rates			29,986	32,743
	Sinking fund debentures due 2002, held and not cancelled			10,593	10,593
				47,656	49,283
	Long-Term Debt			**$2,240,774**	**$1,748,378**

Note 4: Long-Term Debt (Cont'd.)

a) Guaranteed by the Government of Canada.

b) These bonds are subject to repurchase arrangements.

c) Weighted average interest rate on Government of Canada loan and advances outstanding at December 31, 1982 and 1981, was approximately 8.3% per annum.

d) The Government of Canada consolidated loan bears interest at 8 3/4% per annum and is payable in equal semi-annual payments of $13.63 million covering principal and interest to June 30, 2008.

e) Secured by rolling stock and payable by semi-annual or quarterly instalments over various periods to 1995 at interest rates ranging from 8% to 17 3/4%. As at December 31, 1982, the principal amounts are payable as U.S. $197.3 million (December 31, 1981 — U.S. $217.7 million).

f) Two bank loans of 100 million Swiss Francs each, repayable on April 9, 1985 and March 16, I987, or earlier at the Company's option.

g) Interest rates for these leases range from approximately 11 1/4% to 15 3/4% and expiry dates occur between 1985 and 2002. See Note 6 for further information concerning commitments under leases.

h) Repayable by semi-annual instalments of $218,503, including principal and interest, to August 1, 1988.

i) Principal repayments, including sinking fund repayments and repurchase arrangements, on debt outstanding at December 31, 1982, and including imputed interest of $18.0 million with respect to payments under capital lease obligations, are as follows:

	(in thousands)
Year ending December 31:	
1983	$ 39,160
1984	56,107
1985	180,971
1986	132,676
1987	243,686
1988 - 1992	428,448
1993 - 1997	408,707
1998 - 2002	389,851
2003 - 2007	323,514
2008 - 2012	76,751

j) If the year-end exchange rate had been used in translating long-term debt payable in foreign currencies, the long-term debt would have been increased by $132.0 million (1981 — $75.2 million).

Note 5: Shareholder's Equity

a) Capital Stock

During the year, 8,600 shares (1981 — 13,228) of the no par value common stock of the Company were issued to the Government of Canada at a value of $4,300,000 (1981 — $6,614,000) as part of an arrangement whereby the Government shall purchase shares in the capital stock of the Company having a value in aggregate of up to $143,100,000 (which, adjusted for inflation, now amounts to $149,767,000) as a contribution to the cost of CN Marine's capital projects. The aggregate value of shares issued to December 31, 1982 under this arrangement was $37,590,000 and a further 89,736 shares at a value of $44,868,000 have been issued during 1983.

b) Retained Earnings

Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct. Since the Company sustained a net loss for the year, no dividend has been accrued in 1982.

The Government of Canada, through the Minister of Transport, has deemed that certain Government payments to the Company in earlier years constituted a double benefit to the Company. Accordingly, an amount of $46,847,000 has been added to long-term debt as part of the Government of Canada consolidated loan, the balance of Retained Earnings at January 1, 1980 has been adjusted by $41,829,000, $4,564,000 has been charged to income for that year, and the remainder has been applied against an earlier provision.

Note 6: Major Commitments

a) Leases

(i) The Company's commitments as at December 31, 1982, under leases, of which the significant portion is in respect of railway rolling stock, but excluding lease obligations recorded as long-term debt (see Note 4) are as follows:

	Non-Cancellable Leases	
	Capital Leases	Operating Leases
	(in thousands)	
Year ending December 31:		
1983	$ 40,665	$ 56,115
1984	40,622	46,441
1985	41,505	41,056
1986	37,035	36,563
1987	35,640	34,754
1988 – 1992	83,019	99,623
1993 – 1997	6,236	38,680
1998 – 2002	2,814	7,902
thereafter	446	194
Total minimum lease payments	287,982	$361,328
Less amount representing imputed interest	86,766	
Present value of net minimum lease payments under capital leases	$201,216	

Many of the leases provide renewal options and an option to purchase the property at fair market value at the end of the lease term.

Note 6: Major Commitments (Cont'd.)

(ii) Rental expenses under all lease arrangements were:

	Year ended December 31		
	1982	1981	1980
		(in thousands)	
Total expenses	$176,073	$178,914	$146,685
Expenses under capital leases not included in long-term debt	$ 41,262	$ 43,276	$ 46,852

(iii) Net change in income and increases in assets and liabilities in the consolidated financial statements, which would have arisen if leases of earlier years which satisfied the criteria for capital leases had been capitalized, are as follows:

	Year ended December 31		
	1982	1981	1980
		(in thousands)	
Net increase (reduction) in income	$ 596	$ (540)	$ (761)
Increase in Assets			
Properties			
Leased properties under capital leases	$296,019	$301,397	$303,937
Less accumulated amortization	152,292	131,487	109,535
	$143,727	$169,910	$194,402
Increases in Liabilities			
Current Liabilities			
Present value of obligations under capital leases	$ 22,314	$ 22,188	$ 23,105
Non-Current Liabilities			
Present value of obligations under capital leases	$201,216	$230,877	$268,534
Less current portion	22,314	22,188	23,105
	$178,902	$208,689	$245,429

b) Other

The Company has a commitment at December 31, 1982, to purchase rail from a major Canadian steel producer over the period of the next nineteen months at an aggregate cost of $72.5 million. In addition, there are commitments for capital expenditures of $76.5 million for railway ties and $4.8 million for rolling stock.

Note 7: Subsidies

Revenues include the following subsidies:

	Year ended December 31		
	1982	1981	1980
		(in thousands)	
Government of Canada			
a. Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	$229,494	$162,018	$ 93,028
b. Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	16,161	17,341	17,328
c. Other	6,529	5,718	5,532
Other	803	2,623	–
	$252,987	$187,700	$115,888

Note 8: Pensions

The company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age, based on compensation and length of service. Annual pension costs were as follows:

	Year ended December 31		
	1982	1981	1980
		(in thousands)	
	$185,359	$182,570	$196,712

The total amount of past service costs remaining to be charged to operations at December 31, 1982 and 1981, based on the latest actuarial valuation as at December 31, 1980 (December 31, 1980 amount based on December 31, 1977 actuarial valuation), adjusted for subsequent changes, aggregate:

	At December 31		
	1982	1981	1980
		(in thousands)	
Canadian plans	$1,526,280	$1,445,213	$1,117,110
U.S. plans	13,710	28,669	23,566
	$1,539,990	$1,473,882	$1,140,676

The amount remaining at December 31, 1982, will be charged to operations in annual amounts, including principal and interest, as follows:

	Annual Cost (in thousands)		Annual Cost (in thousands)
1983	$125,070	1997	$ 97,041
1984	132,001	1998	93,537
1985	139,366	1999	98,678
1986	147,091	2000	104,081
1987	133,355	2001	109,793
1988	140,744	2002	52,699
1989	148,631	2003	55,583
1990	156,890	2004	58,628
1991	165,584	2005	61,836
1992	150,807	2006	65,073
1993	132,589	2007-2008	103
1994	134,276	2009	561
1995	141,869	2010-2011	564
1996	142,765	2012-2015	1,479

Funding exceeded the charge to operations by $4.3 million for each of the years 1982 and 1981. In 1980, charges to operations exceeded funding by $9.3 million. The cumulative excess of charges to operations over funding requirements, amounting to $55.8 million (1981 — $60.1 million), is included in Other Liabilities and Deferred Credits.

The actuarially-computed value of vested benefits at December 31, 1980, the date of the latest actuarial valuation, exceeded the total of the pension funds at that date by $165.1 million.

Note 9: Miscellaneous Loss

Miscellaneous loss consists of the following:

	Year ended December 31		
	1982	1981	1980
		(in thousands)	
Miscellaneous revenues	$ 1,839	$ 1,851	$ 1,655
Interest			
Total interest on long-term debt	236,206	158,192	125,284
Interest on short-term borrowings	7,182	14,946	1,017
Interest on investments	(3,015)	(2,307)	(15,376)
Total interest (net)	240,373	170,831	110,925
Interest assigned to divisions	(214,169)	(168,398)	(109,325)
	26,204	2,433	1,600
Other expense (net)[1]	100,129	47,532	43,121
Total expenses	126,333	49,965	44,721
Total miscellaneous loss	**$124,494**	**$ 48,114**	**$ 43,066**

[1] Other expense (net) consists of a 1982 provision for impairment of the value of a portfolio investment and general corporate income and expenses.

Note 10: Income Taxes

The company has timing differences of approximately $1.1 billion which are available to reduce taxable income of future years. Of that amount, $897 million is due to the excess of the undepreciated capital cost for income tax purposes over the net book value of depreciable assets. In addition, investment tax credits of about $19 million, $28 million, $35 million and $22 million are also available to reduce future income taxes otherwise payable until December 31, 1984, 1985, 1986 and 1987 respectively.

Note 11: Segmented Information

a) Geographic Areas

Virtually all of the System's operations and assets are within Canada with the exception of Grand Trunk Corporation which operates in the United States.

b) International Traffic

In addition to the revenue generated by Grand Trunk Corporation, the System derives revenue from traffic originating or terminating on railroads in the United States. In 1982, such revenues approximated $528 million (1981 - $607 million, 1980 — $579 million).

c) Identifiable Assets by Division

	December 31		
	1982	1981	1980
		(in thousands)	
CN Rail	$4,612,860	$4,376,924	$3,975,642
TerraTransport	65,616	63,481	62,338
Grand Trunk Corporation	586,727	619,742	546,902
CN Enterprises			
CN Communications	463,827	452,221	408,940
CN Trucking	50,371	62,618	59,040
CN Hotels and Tower	138,781	141,748	143,289
CN Marine Inc.	204,662	175,766	161,994
CN Exploration	20,845	2,718	—
Real Estate	52,046	32,588	—
Other Businesses	45,480	71,209	75,152
CN Express	42,160	61,388	69,078
Miscellaneous	52,596	73,360	140,412
Total assets per Consolidated Balance Sheet	**$6,335,971**	**$6,133,763**	**$5,642,787**

Assets pertaining to the Real Estate and CN Exploration Divisions were not separately identified in years prior to 1981.

d) Capital Expenditures and Depreciation by Division

	Capital Expenditures[1]			Depreciation		
	Year ended December 31			Year ended December 31		
	1982	1981	1980	1982	1981	1980
		(in thousands)			(in thousands)	
CN Rail	$469,057	$512,290	$408,685	$161,692	$151,717	$134,971
TerraTransport	1,276	3,533	4,249	3,361	2,392	2,603
Grand Trunk Corporation	26,161	39,493	42,311	13,553	11,952	14,028
CN Enterprises						
CN Communications	62,260	58,838	33,360	36,374	31,696	23,921
CN Trucking	1,347	8,765	8,900	4,595	5,830	5,596
CN Hotels and Tower	6,161	10,143	6,594	5,889	5,753	5,655
CN Marine Inc.	30,452	19,607	49,836	8,517	8,466	8,251
CN Exploration[2]	11,988	1,716	—	—	53	—
Real Estate[2]	1,661	60	—	451	365	—
Other Businesses	34,108	954	98	773	63	107
CN Express	3,349	1,118	4,101	3,785	4,286	4,569
Miscellaneous	280	6,023	—	1,089	1,651	804
	$648,100	**$662,540**	**$558,134**	**$240,079**	**$224,224**	**$200,505**

[1] Represents additions to property, plant and equipment.

[2] Amounts for capital expenditures and depreciation pertaining to the Real Estate and CN Exploration Divisions were not separately identified in years prior to 1981.

Note 12: Other Matters

a) The Company carries on ordinary business transactions with various entities controlled by the Government of Canada on the same terms and conditions as current transactions with unrelated parties.

In addition, the Company provides, under contractual arrangements, rail transportation and maintenance and marine services to the Government of Canada and to entities controlled by the latter. The revenue derived from such services rendered in 1982 aggregated $487.3 million (1981 — $483.4 million, 1980 — $409.7 million) and the amounts receivable therefrom at December 31, 1982, amount to $4.5 million (1981 — $11.5 million, 1980 — $0.2 million).

b) Commencing in 1977, the Government of Canada has agreed to pay to the Company, by way of capital grants not exceeding $292.8 million, certain amounts with respect to expenditures incurred in carrying out rehabilitation programs for branch lines in Western Canada. Total payments received up to December 31, 1982, amounted to $238.2 million of which $50.9 million was received in 1982 (1981 — $51.1 million).

c) Commencing in 1981, the Government of Canada has agreed to pay during its 1982-83 fiscal period an amount not exceeding $25 million to the Company to conduct a program of testing and evaluation of railway operations in Newfoundland and to reimburse CN for certain wage and wage-related costs incurred by CN at the request of the Government during the testing and evaluation period. Total billings in 1982 amounted to $13.8 million (1981 — $8.6 million) and the amounts receivable therefrom at December 31, 1982 amount to $1.0 million (1981 — $0.9 million).

d) On February 1, 1983, the Government of Canada announced its decision to implement a new program to permit the rail freight rates on certain grains and grain products, which have been fixed by statute for many decades, to increase. As part of this program Parliamentary approval will be sought covering arrangements for interim payments to compensate CN for a significant portion of revenue losses from the movement of grain for the crop year from August 1, 1982 to July 31, 1983.

e) Grand Trunk Corporation, under the terms of an acquisition agreement dated August 17, 1982, agreed, subject to certain conditions, including the achievement of stated profitability levels, to acquire all the voting shares of the reorganized Chicago, Milwaukee, St. Paul and Pacific Railroad Company. The purchase consideration would be $1.00 together with the assumption of some U.S. $175 million in present value of the acquired company's long-term obligations. The transaction, if it takes place, would be likely to occur by December 31, 1984.

Note 13: Reclassification of Comparative Figures

During 1982, changes were made to improve the classification of certain items and for comparative purposes the 1981 and 1980 figures have been reclassified. In addition, certain divisions ceased participation in the System's self-insurance program and as a result the level of the Insurance Fund and the Provision for Insurance have been significantly reduced.

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February 28, 1983

AUDITORS' REPORT

To The Honourable The Minister of Transport
Ottawa, Canada

We have examined the consolidated balance sheet of the Canadian National Railway System as at December 31, 1982 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the System as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles consistently applied.

Also, in our opinion, proper books of account have been kept and the transactions that have come to our notice have been within the powers of the System.

The consolidated financial statements of the System for the two years ended December 31, 1981 and 1980 were reported upon by another firm of chartered accountants.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Canadian National Railways Pension Trust Fund
Consolidated Statement of Financial Position as at December 31

		1982	1981
		(in thousands)	
Investments	Bonds - quoted market value		
	1982 - $1,113,510; 1981 - $807,806	$1,118,916	$ 957,206
	Mortgages and loans - secured by real estate	320,773	334,072
	Real estate	184,871	83,642
	Oil and gas properties	52,861	53,500
	Equities – quoted market value		
	1982 – $1,266,826; 1981 – $1,148,109	1,123,564	1,035,646
	Short-term investments	258,490	268,804
		3,059,475	2,732,870
	Cash	1,969	199
	Accounts receivable –		
	Canadian National Railways	10,155	5,394
	Accrued interest and other assets	36,629	14,889
		3,108,228	2,753,352
Amount to be funded	Amount to be funded by the Company in accordance with the Pension Benefits Standards Act by periodic payments to December 31, 2006		
	Balance, beginning of year	1,498,990	1,170,856
	Add increases during year	102,005	367,756
	Deduct – Principal payments	(18,945)	(7,842)
	– Unfunded actuarial liability applicable to VIA Rail Canada Inc. and CNCP Telecommunications pension plans	—	(31,780)
	Balance, end of year	1,582,050	1,498,990
		$4,690,278	$4,252,342

See accompanying note to consolidated statement of financial position.

Auditors' Report

To The Honourable The Minister of Transport,
Ottawa, Canada

We have examined the consolidated statement of financial position of the Canadian National Railways Pension Trust Fund as at December 31, 1982. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The actuarial liability for pension benefits is the subject of a separate certificate of independent actuaries which accompanies the consolidated statement of financial position, the last actuarial valuation having been made as of December 31, 1980.

In our opinion, based on our examination and the actuarial certificate, this consolidated financial statement presents fairly the financial position of the Canadian National Railways Pension Trust Fund as at December 31, 1982 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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

Mallette, Benoit, Boulanger, Rondeau & Associés.
Chartered Accountants,
Montreal, Canada
February 28, 1983

Canadian National Railways Pension Trust Fund
Consolidated Statement of Financial Position as at December 31

		1982	1981
		(in thousands)	
Actuarial Liability For Pension Benefits	Balance, beginning of year	**$4,252,342**	**$3,590,618**
Additions during year	Increases in actuarial liability for pension benefits resulting from		
	– Actuarial valuation as at December 31, 1980	—	325,253
	– Pension Plan amendments and increases in pension benefits to pensioners	95,683	42,503
	– Inclusion of Northern Alberta Railways Company Pension Trust Fund as of January 1, 1982	25,099	—
		120,782	367,756
	Contributions by employees on account of		
	– Current service	87,543	79,960
	– Prior years' service	7,592	6,713
		95,135	86,673
	Contributions by the Company relating to current service and unfunded actuarial liability and lump sum payments to pensioners amounting to $5,641 in 1981	187,020	181,717
	Net earnings on investments	283,746	329,040
		565,901	597,430
		4,939,025	4,555,804
Deductions during year	Pension benefits paid	219,898	190,624
	Refunds on termination of service	8,496	10,406
	Principal payments applied to unfunded actuarial liability	18,945	7,842
	Reduction in actuarial liability for pension benefits related to transfer of employees to VIA Rail Canada Inc. and CNCP Telecommunications	1,408	94,590
		248,747	303,462
	Balance, end of year	**$4,690,278**	**$4,252,342**

On behalf of the Board: J.H. Horner, Director
J. Maurice LeClair, Director

Actuarial Certificate

To the Trustee
Canadian National Railways
Pension Trust Fund

I have examined the actuarial liability for pension benefits shown in the consolidated statement of financial position of the Canadian National Railways Pension Trust Fund as at December 31, 1982, and in my opinion the amount of $4,690,278,000 represents adequate provision for the actuarial liabilities for all pension benefits of the 1935 and 1959 Pension Plans and of the Northern Alberta Railways Company Pension Plan.

Geoffrey B. White,
Fellow of the
Canadian Institute of Actuaries.

William M. Mercer Limited,
Montreal, February 24, 1983.

Canadian National Railways Pension Trust Fund

Note to Consolidated Statement of Financial Position

Summary of Significant Accounting Policies

a) Pension Plans of Canadian National Railways covered by Statement

The Pension Trust Fund consolidated statement of financial position includes the actuarial liability for pension benefits, the investments and the amount to be funded with respect to the 1959 and 1935 Pension Plans and, effective January 1, 1982, for the Northern Alberta Railways Company Pension Plan.

Effective January 1, 1982, the Pension Trust Funds for the 1935 Pension Plan and the Northern Alberta Railways Company Pension Plan have been transferred to the Canadian National Railways Pension Trust Fund created by the 1959 Pension Plan.

b) Consolidation of Subsidiary Companies

The Pension Trust Fund has invested in a number of wholly-owned subsidiary companies. The accounts of these subsidiary companies are consolidated with the accounts of the Pension Trust Fund.

c) Investment Valuation

(i) Bonds are carried at their amortized cost, plus deferred amounts arising from exchanges made to improve yields which are written-off over the remaining life of the bonds sold;

(ii) Mortgages and loans are carried at outstanding principal balances;

(iii) Real estate consists of land and buildings. Land is carried at the lower of cost and net realizable value less encumbrances and buildings at the lower of cost and net realizable value less encumbrances and accumulated depreciation;

(iv) Oil and gas properties, which are managed by Dome Petroleum Limited, are carried at cost. No depletion of the properties is provided for as the Fund holds an offer to purchase, effective until January 3, 1999, which it may exercise for a consideration equal to their cost less proceeds on disposal of any portion of the properties;

(v) Equities and short-term investments are carried at cost.

The quoted market value of investments in bonds and equities is based on the closing market quotations as of December 31.

d) Determination of Funding Payments

The funding payments are determined in accordance with the accrued benefit actuarial cost method.

The principal assumptions underlying the actuarial computations adopted by the Plans' actuary have been developed from the actual experience of the Plans in regard to the members' mortality, disability, retirement, termination of employment, and merit and periodic increases in earnings.

For purposes of the actuarial computations, the Pension Trust Fund is assumed to have a long-term rate of return of 7% per annum on investments and future increases in members' earnings have been projected using economic assumptions consistent with that projection.

The funding payments, including liquidation of the unfunded actuarial liability, meet the requirements of the Pension Benefits Standards Act and regulations thereunder. Consistent with the regulations, the Company is funding its unfunded actuarial liabilities by annual payments over varying periods to 2006.

e) Accounting for Contributions

Contributions from employees are recorded in the period in which the Company makes payroll deductions.

The recording of contributions by the Company is based upon amounts required to be funded with respect to accrued actuarial liabilities and the Company's current service liability.

f) Income Determination

Dividend income is recorded as of the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

Gain or loss on sales of equities is based on the average cost.

g) Foreign Exchange

Investments denominated in foreign currencies other than short-term investments are translated at historical rates of exchange. Short-term investments and the quoted market value of investments denominated in foreign currencies are translated at current rates. Foreign dividends and interest income are translated at the rates prevailing when received.

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