



Annual Report 1980  
Canadian National

*The Graphic Design of this year's Annual Report suggests the integration of Canadian National with the vast, varied, beautiful and difficult country which the Corporation serves. On the cover, a unit train of sulphur threads the canyon of the Thompson River in the Canadian Rockies. Protective rock sheds illustrate the technical problems of railroading in the area. This section of CN's main line is, nevertheless, scheduled for double-tracking as part of the Corporation's response to the need for increased rail capacity in Western Canada.*

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

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

Note: Dollars in all tables are expressed in millions except average annual wage and cost per employee and Consolidated Financial Statements.

## System Highlights

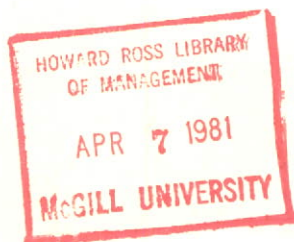
	1980	1979	Increase (Decrease)	
			Amount	Percent
<b>Financial Results</b>				
Revenues	\$3,705.6	\$3,381.6	\$ 324.0	9.6
Interest expense-net	110.9	96.4	14.5	15.0
Net Income	192.7	208.2	(15.5)	(7.4)
Dividend	38.5	41.6	(3.1)	(7.4)
Return on average investment %	6.9	7.5	(0.6)	(8.0)
Return on average equity %	6.8	7.9	(1.1)	(13.9)
<b>Capital Expenditures</b>				
Total expended	561.0	558.3	2.7	0.5
Other Investments	115.0	6.0	109.0	-
Capital value of leased rolling stock acquired	38.8	-	38.8	-
	714.8	564.3	150.5	26.7
<b>Assets and Working Capital</b>				
Current assets	1,017.9	870.0	147.9	17.0
Working Capital (Deficiency)	(27.4)	176.5	(203.9)	-
Property plant and equipment	4,399.0	3,971.2	427.8	10.8
Total assets	5,645.2	5,143.1	502.1	9.8
<b>Capital Structure</b>				
Long-term debt (including current portion)	1,591.0	1,522.5	68.5	4.5
Equity	2,944.9	2,764.0	180.9	6.5
Debt ratio %	35.1	35.5	(0.4)	(1.1)
<b>Employees</b>				
Average number of employees	74,014	76,592	(2,578)	(3.4)
Average annual wage per employee	\$ 22,720	\$ 20,589	\$ 2,131	10.4
Average annual cost per employee	27,163	24,646	2,517	10.2

# Annual Report 1980

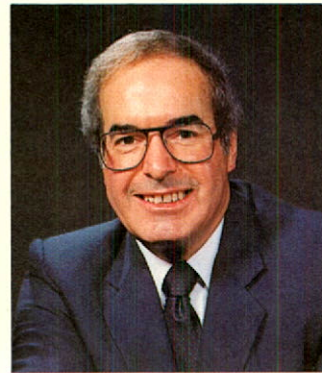
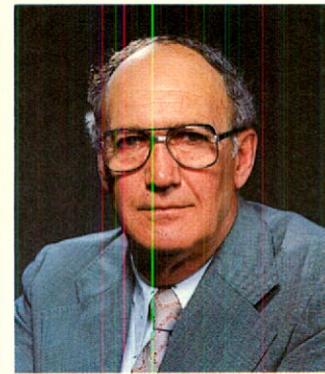
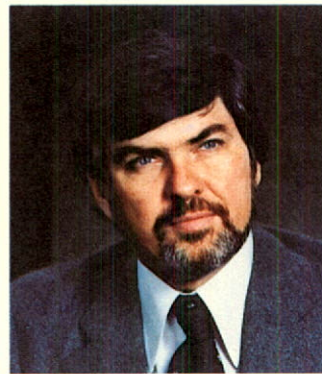
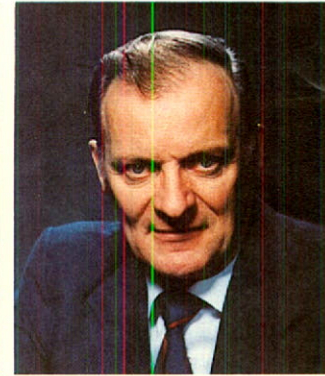
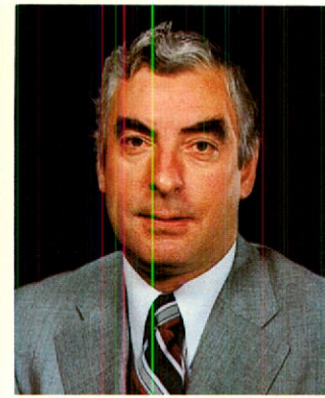
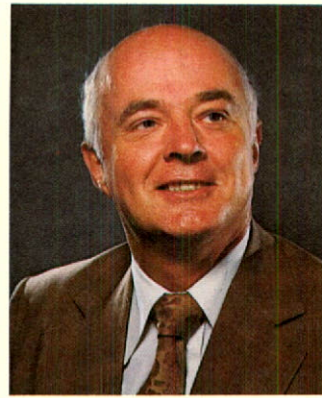
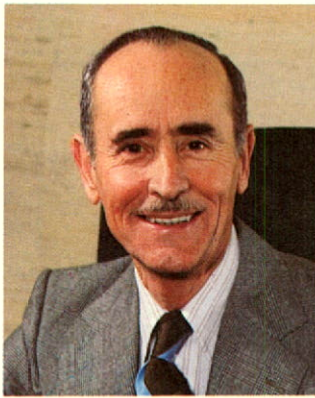
## Canadian National

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Directors



\*\* J.A. Dextraze, C.C., C.B.E., C.M.M.  
LL.D., D.S.O., C.D.,  
Chairman  
Montreal, Que.

Austin E. Hayes  
Halifax, N.S.

C. Kroft  
Winnipeg, Man.

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

\*\* R.A. Bandeen, O.C., Ph.D., LL.D., D.C.L.  
President and Chief  
Executive Officer  
Montreal, Que.

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

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

\*\* F.D. Rosebrugh  
Toronto, Ont.

\* Pierre Des Marais II  
Montreal, Que.

The Hon. J.H. Horner, P.C.  
Pollockville, Alta.

\*\* H.C. Pinder  
Saskatoon, Sask.

\*/ \*\* W.J. Vancise, O.C.  
Regina, Sask.

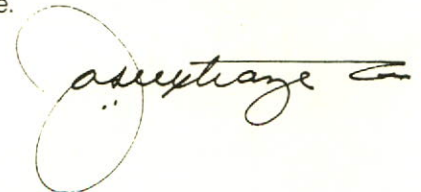
To the Honourable  
The Minister of Transport  
Ottawa

Dear Mr. Minister:  
The Board of Directors of Canadian National is pleased to submit the Annual Report of the Corporation for 1980. The report tells of a relatively successful year in which important tasks were performed well and a good financial result was obtained in the face of challenging economic conditions.

The year was one of adjustment and adaptation, of new acquisitions and some retrenchments.

The Corporation reacted to short-term economic changes while moving towards long-term goals that will permit it to serve Canada well. The report records how CN's Divisions responded to changing market demand and to new levels of business activity while coping with higher energy prices, increased wage rates and higher material costs. It records important acquisitions in the rail, trucking, hotels and marine sectors that reflect the confidence of the Company in the future roles of these sectors. It reflects also long-term adjustments and retrenchment in certain Divisions where these are required to meet industrial trends. Above all, it reflects an underlying corporate aim to strengthen the financial health of Canadian National in order to meet the new investment needs foreseen for every Division of the Corporation. In that regard, however, the report highlights some major problems, such as statutory grain rates, which remain to be solved.

Perhaps more than anything, this report reflects the commitment and dedication of Canadian National's thousands of employees in all ranks. Without them the achievements reflected by the 1980 results would be impossible. The efforts of management and the decisions of the Board could not be effective without the continued dedication of these employees to their company and to Canada as a whole.



J.A. Dextraze  
Chairman

**Officers**  
as at December 31, 1980

J.A. Dextraze, C.C., C.B.E., C.M.M., D.S.O., C.D., LL.D.,  
*Chairman of the Board*

R.A. Bandeen, O.C., Ph.D., LL.D., D.C.L.  
*President and Chief Executive Officer*

G.M. Cooper  
*Vice-President and Secretary*

**Corporate**

J.M. LeClair  
*Corporate Vice-President*

K.E. Hunt  
*Corporate Vice-President*

J. Gratwick  
*Vice-President*  
*Corporate Affairs*

W.H. Bailey  
*Vice-President*  
*Purchases and Materials Management*

W.G. Buchanan  
*Vice-President*  
*Corporate Affairs, Europe*

S.T. Cooke  
*Vice-President*  
*Labour Relations*

A.E. Deegan  
*Vice-President*  
*Personnel*

R.C. Franklin  
*Vice-President*  
*Finance*

A.H. Hart, O.C.  
*Senior Vice-President*

J.R. Lagacé  
*Vice-President*  
*Real Estate*

E.D. Pinsonnault, O.C.  
*Vice-President and*  
*General Counsel*

S.D.H. Thomas  
*Corporate Comptroller*

**Divisions**

**CN Rail**

R.E. Lawless  
*President*  
*CN Rail*

D.W. Blair  
*Vice-President*  
*Atlantic Region*

J.L. Cann  
*Vice-President*  
*Operations*

R.J. Hansen  
*Vice-President*  
*Prairie Region*

Y.H. Masse  
*Vice-President*  
*St. Lawrence Region*

J.H.D. Sturgess  
*Vice-President*  
*Marketing*

R.A. Walker  
*Vice-President*  
*Mountain Region*

A.R. Williams  
*Vice-President*  
*Great Lakes Region*

**CN Holdings**

C.F. Armstrong  
*President*  
*CN Holdings*

J.G. Cormier  
*President*  
*CN Hotels*

J.B. Griffith  
*General Manager*  
*CNTL Trucking Subsidiaries*

A.J. Kuhr  
*President and General Manager*  
*CN Telecommunications*

R.G. Messenger  
*President and General Manager*  
*TerraTransport*

C. Perron  
*President and General Manager*  
*CN Express*

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

**Grand Trunk Corporation**

J.H. Burdakin  
*President*

**CN Investment Division**

T. Cedraschi  
*President and Chief Executive Officer*

**Canac Consultants Limited**

W.H. Bailey  
*President and Chief Executive Officer*

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## Corporate Policy and Objectives of Canadian National

Canadian National has experienced significant changes in structure and orientation in recent years. These changes have given the Corporation a financial structure and management organization comparable to that of a diversified business enterprise competing fairly in the market place, earning a commercial return on investment and accepting all the social responsibilities of a good corporate citizen.

Management and the Board of Directors believe this business stance to be proper for CN in Canada today and feel it appropriate to set down the following statement of current policy and objectives.

The purpose of the Corporation is to ensure its long-term existence as a profit-oriented business enterprise responsive to national needs. In seeking to achieve this purpose the Company will:

- Expand or contract its services in response to market demand and diversify into new business ventures as suitable opportunities occur.
- Put forth its best effort in the provision of services determined by Government to be in the national interest; and seek recovery of the commercial losses resulting from such effort.
- Act as a good corporate citizen in regard to environmental protection, safety, community responsibilities, human rights and similar areas of social interest. In particular, the Corporation will continue to be concerned for the job security and job satisfaction of all its employees.

The management of Canadian National sees no conflict between a profit-oriented role for the Corporation and a responsibility to serve national purposes. Indeed we believe that the principle that CN should seek a commercial return on all its activities will lead to a clearer definition of the national tasks to be performed and to more efficiency and less cost in the performance of these tasks.

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Canadian National had a profitable year in 1980 despite unfavourable economic conditions at home and abroad. On revenues of \$3.7 billion the Corporation earned net income of \$192.7 million. This profit enables us to pay a dividend of \$38.5 million to the Federal Treasury, with the remainder used for general corporate purposes including capital investment and debt retirement.

Net income for the year was \$15.5 million less than the \$208.2 million earned in 1979 and the return on average investment was 6.9% compared with 7.5%. These comparisons do not indicate that there was a less efficient operation in 1980. Revenues for 1979 included what might be called a "windfall" of \$34.4 million in accumulated payments for government-subsidized services performed over a number of years prior to 1979. In 1980 only \$9.6 million of such payments were received. With this taken into consideration the operating results for 1980 compare favourably with 1979.

The financial result for 1980 nevertheless represents a pause in the steady improvement in CN's financial position which has taken place over the past five years. This pause was brought about mainly by the combination of inflation and slowdown in economic activity which is affecting business on a world-wide scale. Overall corporate revenues were up by 9.6% but a substantial part of this increase was accounted for by higher tariff charges rather than greater business activity; an effect of inflation. Overall expenses were up by 10.8%, an increase which included a nearly 30% jump in fuel prices.

One very evident effect of economic slowdown on CN's financial result was a reduction of \$20.5 million in income from the Grand Trunk Corporation, mainly as the result of a decline in automobile production and automotive traffic.

But the record of the year shows substantial achievement in the face of these difficulties. While a good part of the in-

creased revenue was related to inflation, some proportion of the increase was accounted for by new business gained despite the general economic slowdown. CN Rail, for instance, achieved a 4.1% increase in revenue-ton-miles and CN Telecommunications and CN Hotels also earned higher revenues by obtaining more business.

Details of the financial and operating results of each of CN's Divisions will be found elsewhere in this Annual Report and the record, by and large, is one of good management and measurable accomplishment. A comparative summary of the financial results of each of the Divisions will be found in the Financial Statements on Page 29.

Capital investment by CN during 1980 amounted to \$714.8 million, an increase of \$150.5 million over the previous year. Of the capital investment more than 75% was for the improvement and expansion of railway operations. This included \$38.8 million for the capital value of leased rolling stock.

Capital Investment by CN Rail for normal replacement and improvement of existing track and rail plant was \$174.4 million and there was new investment of \$57.1 million for double-tracking and other additions to the capacity of main lines.

Double-tracking alone accounted for capital expenditure of \$24.6 million in 1980. Expenditure related to more and longer passing trackage and to yard expansion, accounted for \$32.5 million. These expenditures enabled the operation of longer and heavier trains handling primary commodities such as coal, potash, sulphur, petrochemicals and grain, mainly in Western Canada.

The 1980 capital expenditure program and new investments in subsidiaries and other companies were financed mainly from internal resources, including working capital accumulated in prior years largely in anticipation of a maturing



bond issue. This use of working capital, which resulted in a year-end deficiency of \$27.4 million, was brought about by the deferral of new long-term borrowings because of instability in the debt markets. It is expected that, as conditions improve in the debt markets, working capital will also improve. In the meantime the Company has arranged further lines of credit with its bankers.

Looking to the future, the Management of CN sees some problems related to maintaining the existing debt/equity ratio while financing capital expenditures in the years immediately ahead. Aggregate capital expenditure for 1981 through to 1985 will be about \$4.2 billion. And it seems evident that current levels of net income will not permit us to generate a satisfactory proportion of this capital internally.

In this situation the Corporation has the alternatives of (1) holding back on the investment required to expand rail transportation facilities, (2) borrowing on a scale that would result in an unacceptable level of debt and (3) seeking a massive supply of equity capital from Government. But none of these alternatives is in line with what CN sees as its responsibility to provide Canada with the kind and quantity of transportation services that will be needed in the years ahead, while continuing to operate as an efficient business enterprise with a reasonable debt/equity ratio.

Fortunately, there is a fourth alternative which CN is endeavouring to delineate in its discussions with Government and all other interested parties. This is to deal directly with the main factors known to be causing lower-than-required net income.

These factors are losses on the rail operations of TerraTransport, losses on CN Express nationwide, losses stemming from the requirement to handle Western grain at statutory rates well below cost and, finally, losses on Montreal commuter services. The deficit in each of these

areas was higher in 1980 than in 1979 and the total for the year was close to \$215.0 million.

It seems to us at CN that the key to progress towards elimination of losses in all these areas is acceptance of the principle that when a Crown corporation of the commercial or "proprietary" nature of CN is required to serve the national interest by providing non-commercial services, it should be fully compensated for any financial losses attributable to those services.

Acceptance of this principle would enable CN to finance a reasonable proportion of capital expenditure from retained earnings and to maintain a debt-equity ratio compatible with its long-standing mandate to act as a competitive business enterprise.

Acceptance of the principle would also place the responsibility for making social decisions involving the expenditure of public funds where it properly belongs: that is with Government. As a good corporate citizen CN has social responsibilities which it willingly accepts. These responsibilities include being concerned for the well-being of employees and the security of their jobs, operating safely and with due respect for the environment, being a contributing part of the communities in which we do business. We believe, however, that, under the social and economic conditions which prevail in Canada today, decisions as to the amount and cost of the transportation and related services that are to be provided from public funds are best left to Government.

Corporations such as CN have, of course, a responsibility to *advise* Governments in regard to the solution of problems affecting the national interest. In this connection the Management of the Corporation has been working closely with appropriate governments and government agencies, and with other parties involved, in seeking solutions to the problems posed by Newfoundland rail losses,

Crowsnest grain rates and losses on Montreal commuter and Express services.

There seems to be reason for some optimism about an eventual solution to the problem of Crowsnest grain rates. At a minimum there seems to be an increasing awareness among the parties concerned that heavy financial losses incurred by railways on the transport of grain are the main reasons why the current grain-handling system is unsatisfactory, and also the main limitation on the improvement of the system.

Similarly, some progress seems to be possible in regard to the Newfoundland situation, and the Montreal commuter situation, on the basis of what we believe to be a growing awareness that Governments, not the operators of transportation systems, must decide on the social value of these services and underwrite operating deficits accordingly.

Progress against the deficit on Express operations is being made mainly through socially responsible action by CN to concentrate on sectors of the Express business which can be made to yield a commercial return on investment. But here too an important factor is acceptance of the principle that CN should not be required to provide, at a loss to itself, transportation services which can often be provided profitably by some other transportation mode.

It has to be realized, however, that effective relief from financial losses associated with what we might call unrequited public service in these and other areas is dependent upon decision-making by government. In the meantime, CN, and other elements of the transportation industry which are in a similar position, can only endeavour to operate efficiently and responsibly, within the limits of their current resources, while continuing to stress to Government and others the need for action and the consequences of delay.

At the end of 1980 the Management of

CN looks towards a future shaped by slow economic growth in Canada and the U.S., with no improvement on the inflation front. Our current forecast is for Canada's real gross national product to increase by only 1.6% in 1981, and by 1.2% in the U.S., after little or no growth in 1980. In both countries we expect a weak first half of 1981 with a slow resumption of economic activity later in the year.

Against that background it is difficult to be more than mildly optimistic about the upcoming year. There are, however, some bright spots. Freight tonnage is not

expected to decline because demand for transportation of many bulk commodities is still growing and the transportation needs of Western Canada represent a growth area. CN Rail should, therefore, have another good year in 1981. CN Telecommunications and CN Hotels also look forward to a reasonably good year.

The major problem facing Canadian National is, as I have emphasized, the need for large amounts of capital to finance the expansion and improvement of rail services. In this respect the uncertainties which have been outlined

must be resolved soon if the best value is to be obtained for Canada from the great national asset represented by Canadian National and by the skills, knowledge and hard work of the people who make up the Corporation.



R. A. Bandeen  
President and Chief Executive Officer

#### Five Year Financial and Statistical Summary

	1980	1979	1978	1977	1976
<b>Operations</b>					
Revenues	\$3,705.6	\$3,381.6	\$2,965.8	\$2,694.5	\$2,486.5
Operating income	272.0	283.0	213.7	176.3	131.5
Interest expense – net	110.9	96.4	95.2	154.8	129.0
Net income	192.7	208.2	136.1	28.0	11.8
Dividend	38.5	41.6	27.2	–	–
Return on average investment %	6.9	7.5	6.0	4.8	3.5
<b>Capital Expenditures</b>					
Total expended	561.0	558.3	375.0	372.7	411.5
Capital value of leased rail and rolling stock acquired	38.8	–	–	6.4	14.8
<b>Assets and Working Capital</b>					
Current assets	1,017.9	870.0	726.1	690.9	589.5
Working capital (deficiency)	(27.4)	176.5	157.4	101.4	25.3
Property, plant and equipment	4,399.0	3,971.2	3,628.3	3,498.3	3,312.4
Total assets	5,645.2	5,143.1	4,531.1	4,675.7	4,393.9
<b>Capital Structure</b>					
Long-term debt (including current portion)	1,591.0	1,522.5	1,336.5	1,586.3	2,245.9
Equity	2,944.9	2,764.0	2,493.1	2,384.3	1,496.8
Debt ratio %	35.1	35.5	34.9	40.0	60.0
<b>Traffic</b>					
Revenue ton miles freight (billions)	88.0	84.6	79.2	74.5	72.7
Express shipments handled (millions)	6.9	8.9	8.5	7.5	7.5
<b>Employees</b>					
Average number for year	74,014	76,592	78,247	78,671	80,073
Average annual wage per employee	\$ 22,720	\$ 20,589	\$ 18,260	\$ 16,958	\$ 15,545

CN Rail increased its volume of business and improved its profit level in 1980 compared to the previous year. Revenue ton-mile freight traffic increased by 4.1% and this performance can be considered satisfactory in view of the fact that Canada's gross national product rose only fractionally in what was the smallest year-over-year change in more than a quarter of a century.

### Revenues

Distribution of the revenues of CN Rail is compared in the following table:

	1980	1979	Increase Amount	(Decrease) Percent
Freight	\$2,244.3	\$2,013.0	\$231.3	11.5
Express Contract	5.3	6.0	(0.7)	(11.7)
Passenger	279.0	207.5	71.5	34.5
All Other Services	19.0	18.8	0.2	(1.1)
Government Payments	97.6	100.2	(2.6)	(2.6)
<b>Total</b>	<b>\$2,645.2</b>	<b>\$2,345.5</b>	<b>\$299.7</b>	<b>12.8</b>

Freight revenues increased by 11.5% or \$231.3 million, as a result of greater traffic volume and rate increases. By far the largest revenue increase came from the Fuels and Chemicals sector, with potash, sulphur and bituminous coal being dominant. Marginal increases or declines were experienced in the areas of Automotive, Construction and Building Materials, Machinery and Manufactured Products, and Intermodal traffic. Grain handlings in terms of revenue-ton-miles increased by 11.8% but, as most of this traffic is carried at statutory (Crowsnest Pass) rates frozen below costs, the higher volumes actually resulted in a significantly higher financial loss to CN Rail.

The only noteworthy increase in that portion of CN Rail revenue derived from non-freight services was in passenger-related revenues mainly from the contract with VIA Rail Canada Inc. under which the latter reimburses CN Rail for the cost of operations and the facilities used in the provision of passenger services. The VIA contract revenue increased in 1980, a significant factor being that CN Rail services were supplied to VIA

on a twelve-month basis in 1980, and on a mixed twelve and nine-month basis in 1979, as the VIA contract came into effect in stages in October 1978 and April 1979. CN Rail has been notified by VIA of the latter's intention to terminate the existing Operating Agreement in April 1981, as a formal prelude to a renegotiation process.

Other CN Rail revenues include Federal Government subsidy payments for losses incurred on branch lines, mostly in Western Canada, which CN has applied to

abandon but which are being continued in service by order of the Canadian Transport Commission. Total government subsidy payments in 1980 were \$97.6 million, down by \$2.6 million from the 1979 amount which also included \$30.2 million in respect of those passenger services which were not assumed by VIA until April of that year.

### Expenses

CN Rail expenses were \$2,394.7 million, an increase of \$274.6 million, or 13.0%, over 1979. Inflationary costs, including a 30.0% rise in the cost of diesel fuel, accounted for \$235.0 million of the increase. Eliminating the effect of inflation, total Operations expenses (Transportation, Equipment and Engineering) decreased slightly, despite the overall traffic increase. This was achieved by sound management, operational competence, and productivity derived from capital investments and technological and other changes. A demonstration of operational efficiencies was the ability to keep freight traffic moving at the beginning of the year despite major operational problems which followed the loss of the Second Narrows Bridge at Vancouver.

Damaged late in 1979, the bridge was not restored to service until March of 1980.

**Capital Investment**

In 1980, CN Rail invested capital of \$453.9 million, an increase of \$140.7 million over the 1979 level. The total was made up of \$408.1 million in capital expenditures, \$34.5 million related to the acquisition of Northern Alberta Railways and \$11.3 million for the capital value of leased rolling stock. Of the capital expenditures, \$305.5 million was for plant and track. Most of the \$305.5 million was for normal replacement and improvement of the existing property but new investment of \$57.1 million was incurred for additional mainline capacity, mostly in Western Canada, to enable the handling of higher volumes in longer and heavier trains. This involved selected double-tracking, new and extended passing tracks and yard expansion.

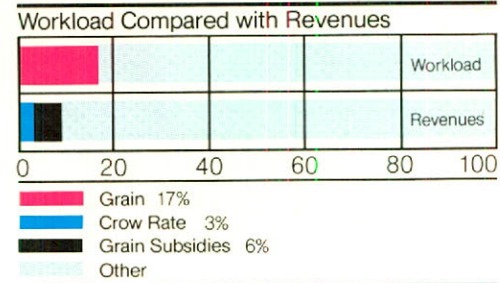
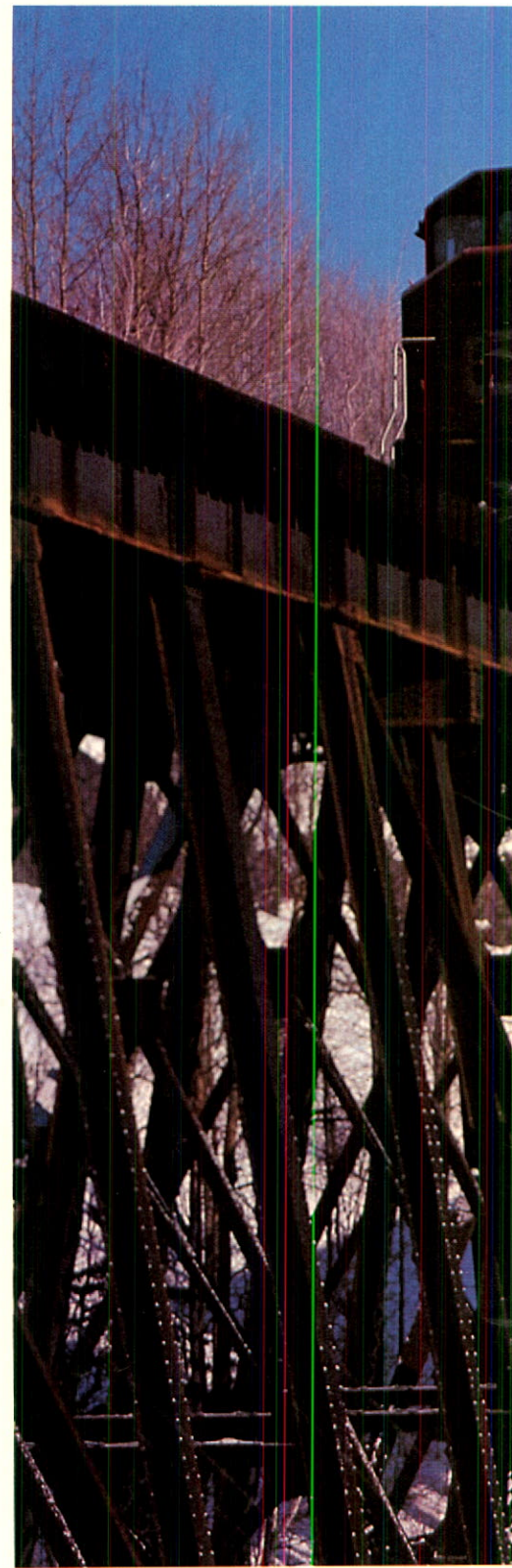
Rolling stock acquisitions in 1980 (including the capital value of leased rolling stock) amounted to \$93.8 million compared with \$26.3 million in 1979, and included 40 mainline diesels; 16 yard booster units and 1,050 freight cars to meet specific revenue traffic demands.

Among capital investments in 1980 having an impact on the market strategies of CN Rail were the purchase by Canadian National of full interest in the Northern Alberta Railways and the acquisition by the Grand Trunk Western Railroad of the Detroit, Toledo and Ironton Railroad Company (D.T.&I.) - the latter a Class 1 railroad providing G.T.W. and CN Rail with a gateway to the Southern United States through Cincinnati. These changes reflect the fact that much attention is now being given to the rationalization of both the Canadian and international rail structure.

**Summary**

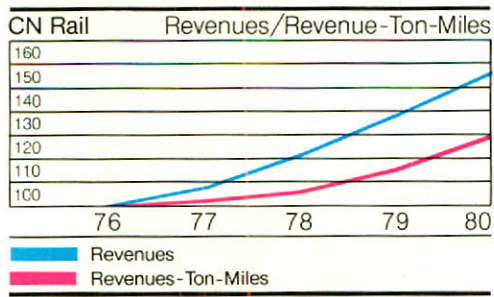
To summarize, CN Rail's 1980 income of \$250.5 million was \$25.1 million higher than in 1979. Over 60% of the improvement was derived from freight operations.

Revenues increased over 1979 because of freight rate increases, greater coal, sulphur, potash and grain traffic, and increased revenues from VIA Rail Canada Inc. Expenses were up mainly as a result of inflation and despite productivity improvements. A further significant factor was the elimination of inter-city passenger train losses as a result of completion of the transfer of these services to VIA Rail Canada Inc. on April 1, 1979. Increased movements of grain at non-commercial statutory rates had a depressing financial effect on the results of the Division.





*Iron ore for the steel mills at Hamilton, Ontario. Crossing a trestle at South River, Ontario.*



## Grand Trunk Corporation

### Grand Trunk Corporation

The Grand Trunk Corporation and its wholly-owned U.S. Railways operated profitably in 1980, contributing a consolidated profit of \$9.1 million (Canadian) to CN's income. This represented a decrease of \$20.5 million compared with 1979.

Automobile traffic was off substantially and there were declines in most commodity groups. The purchase by the Grand Trunk Western Railroad of the Detroit, Toledo and Ironton Railroad in June 1980 had the effect of increasing overall revenues, and expenses, but the D.T.&I. too was affected by the fall-off in automobile traffic. Rate increases and reductions in the work force helped to moderate the effect of lower traffic and of inflation. Comment on the results of each company follows. Figures are in U.S. dollars.

### Grand Trunk Western Railroad Company

In 1980 the G.T.W. incurred a loss of \$5.2 million, before an income tax credit, compared with a profit of \$4.3 million in 1979. This reduction was a direct result of the downturn in the U.S. economy and in particular the problems encountered by the automotive industry. These adverse conditions in the automotive industry were largely responsible for the 1980 marginal results of the Detroit, Toledo and Ironton Railroad.

### Central Vermont Railway Inc.

The Central Vermont earned \$2.0 million before income tax in 1980, an improvement of \$0.1 million over 1979.

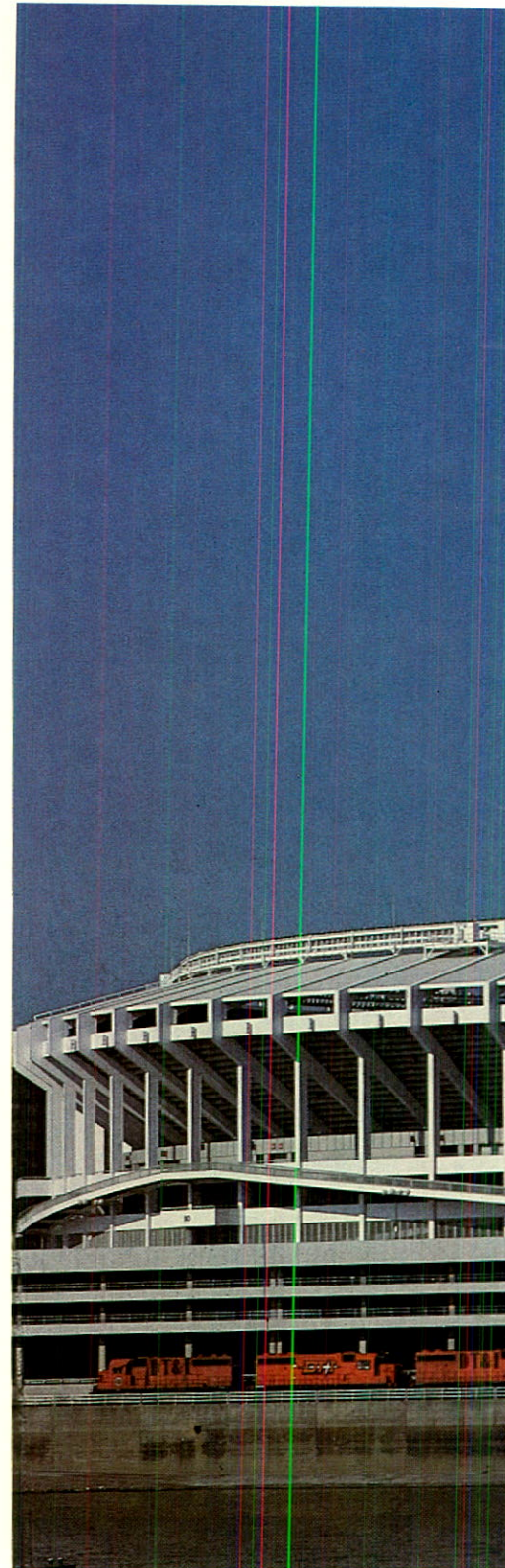
Operating revenues of \$20.8 million surpassed the 1979 level by \$2.9 million. This increase resulted mainly from freight rate increases – although an increase in movement of forest products was significant. Higher fuel and labour costs plus increased car hire expenses resulted in operating expenses higher by \$2.7 million than in the previous year.

### Duluth, Winnipeg and Pacific Railway Company

The D.W. & P. earned \$11.0 million in 1980 before income tax compared to \$12.5 million in 1979. Overall revenues in 1980 reached a record \$37.2 million.

Traffic volume was down but freight rate increases helped to produce an overall \$1.6 million increase in revenue for the year.

Operating expenses increased by \$3.2 million to \$26.3 million mainly from a decline in car hire earnings and from higher fuel costs.





Year	Income
80	10
79	30
78	31
77	29
76	14

*Freight cars of the Detroit, Toledo and Ironton Railroad, against the skyline of Cincinnati, Ohio. The D. T. & I. was acquired in 1980 by CN's Grand Trunk Western to provide access, via Cincinnati, to the Southern United States.*

## CN Telecommunications

CN Telecommunications increased business activity and overall revenues in 1980 and produced an improved profit for the Corporation.

Earnings of the Division were \$33.2 million – \$7.7 million higher than in 1979. The main factors contributing to the improvement were the higher volume of business activity, additional income resulting from the terms of a partnership arrangement with Canadian Pacific Limited and some rate increases.

The gains of 1980 did not come easily. The slow Canadian economy and increasing competition in the market place present a significant challenge to a continued profit position and demand a high degree of management skill and technical expertise from the people who make up the Division. Exploitation of new technology to improve productivity helped offset the considerable impact of inflation upon operating expenses.

CN Telecommunications underwent a major change in structure in 1980. With effect from January 1, 1980, a partnership arrangement was completed with Canadian Pacific Limited, creating a separate organization to provide commercial communications services, under the now familiar name of CNCP Telecommunications, in all of Canada except the operating territories of NorthwesTel Inc. and Terra Nova Telecommunications Inc. The new organization is managed as a separate entity, responding to a Board composed of CN and CP representatives.

The financial results of the Division reflect CN's share of CNCP Telecommunications' income as well as the results of the directly managed telephone subsidiaries, NorthwesTel Inc. and Terra Nova Telecommunications Inc., and non-commercial telecommunications services provided to other CN Divisions.

## CNCP Telecommunications

CNCP Telecommunications competes with the Trans-Canada Telephone System in marketing a comprehensive range of telecommunications services, from telegrams to the most sophisticated business communications networks. New services offered in 1980 include Telenews and international Infoswitch to Europe in association with Teleglobe Canada. CNCP also announced new Infotex business communication services to be offered in 1981.

Earnings of CNCP Telecommunications and other divisional operations were \$21.1 million compared with \$14.9 million in 1979. Revenues increased by 11.1% to \$127.6 million, mainly from expansion of leased services for high speed data transmission and continued Telex growth. Application was made on April 15, 1980 to the Canadian Radio-television and Telecommunications Commission for a general rate increase. CRTC'S decision is expected early in 1981.

### NorthwesTel Inc.

NorthwesTel, with operating headquarters at Whitehorse, provides public telephone service and a complete range of telecommunications services in northern British Columbia, the Yukon and the western part of the Northwest Territories.

NorthwesTel earned income of \$9.0 million compared with \$7.1 million the previous year. Revenues of \$38.1 million were 11.4% higher and came mainly from increased volume of business. Expenses were held to a 6.5% increase through productivity improvement achieved mainly by application of new equipment for switching of telephone calls and processing of operator-assisted long distance calls.

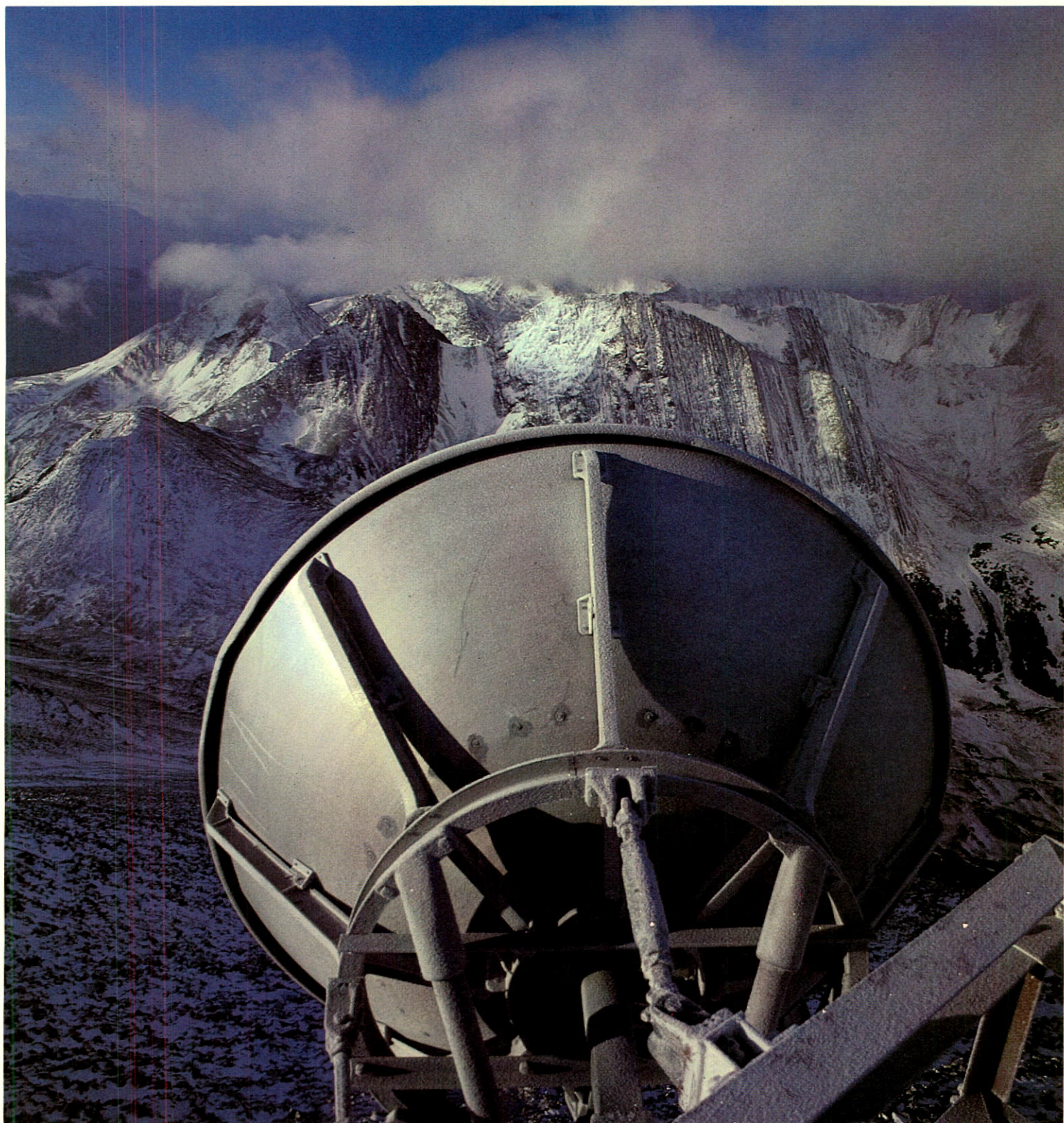
### Terra Nova Telecommunications Inc.

"Terra Nova Tel" provides public telephone services in the mainly rural areas of Newfoundland and a full range of other telecommunications services throughout the province. During 1980, the company's new headquarters building was opened in

Gander and the relocation of the general manager and his staff from St. John's was completed.

Earnings declined to \$3.1 million from \$3.5 million in 1979 as a result of adverse economic conditions, caused partly by labour disruptions in the fishing and construction industries. These and other adverse factors were partially offset by productivity improvements, particularly with respect to operator-handled calls. A general rate increase was applied for and approved by the Canadian Radio-television and Telecommunications Commission on October 31, 1980.





A micro-wave tower near Jasper, Alberta. Through a new, jointly-owned company – CNCP Telecommunications – CN is helping to move Canada into the new era of communications.

CN Telecommunications	Income
80	35
79	25
78	20
77	25
76	20

## CN Trucking

Earnings of CN Trucking declined by \$1.1 million in 1980 because of the economic downturn in Eastern Canada and cost inflation. Trucking operations nevertheless earned \$2.1 million mainly because of growth in Western Canada.

Capital expenditure for the year amounted to \$8.9 million of which \$8.0 million went for vehicles and \$0.9 million for terminal facilities.

A significant event of 1980 was an agreement arrived at by CN Trucking through its subsidiary, Transport Husband (Québec) Inc., with the Government of Quebec to jointly acquire all of the shares of Les Entreprises Bussières Ltée., subject to the approval of the Canadian Transport Commission. The major components of this acquisition will include Bellechasse Transport Inc., Rimouski Transport Ltd., Speedway Express Ltd., and Overnight Express (1980) Inc.

Les Entreprises Bussières Ltée. has approximately 1,600 employees and operates about 1,700 vehicles out of 20 terminals in Eastern Canada. Revenues amounted to \$60.0 million in 1980. The impending acquisition would close a gap between Montreal and Moncton and allow CN Trucking to institute a national coast-to-coast marketing program. In addition, CN trucking services would be extended to Southern Quebec, New Brunswick, Prince Edward Island and Newfoundland.





*An eighteen-wheel unit of Midland Superior, one of CN's trucking subsidiaries, seems part of the immensity of the Canadian West. Near Drumheller, Alberta.*

CN Trucking	Income
80	2.2
79	3.2
78	2.6
77	2.3
76	1.8

## CN Express

CN Express had a loss of \$53.1 million in 1980, compared with \$47.2 million the previous year, as a vigorous program to improve productivity was offset by a sharp decline in volume of business and in revenues.

Total expenses were reduced by \$6.5 million through a major adjustment in operating and administrative staff levels and through reduction in the vehicle fleet and savings in linehaul costs. These savings more than offset the effect of inflation on wage levels and material and fuel costs.

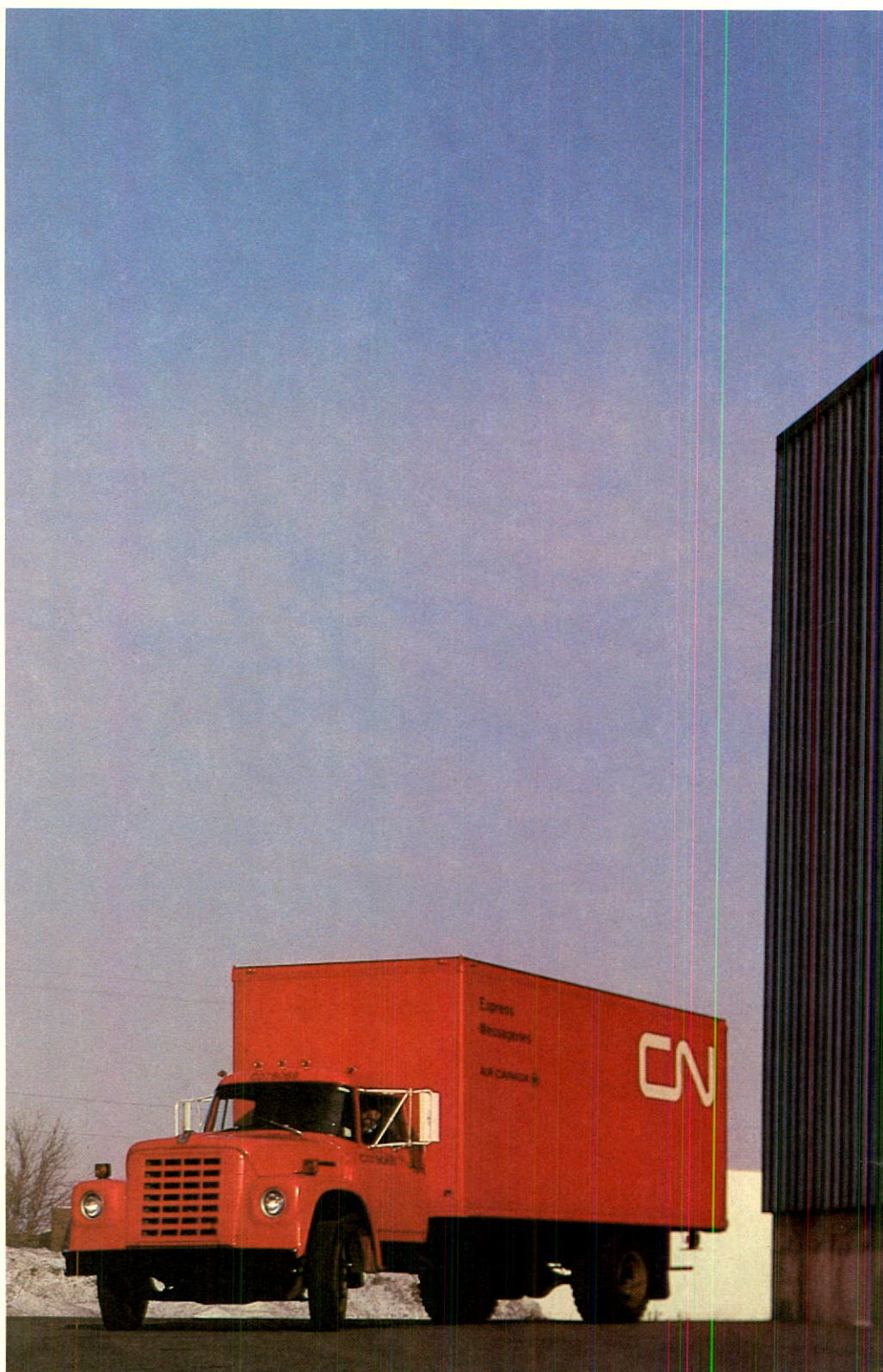
The benefits of the savings, however, were in turn offset by a drop of \$12.4 million in total operating revenues.

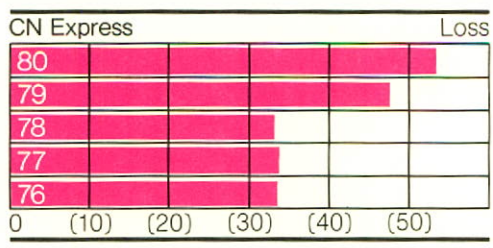
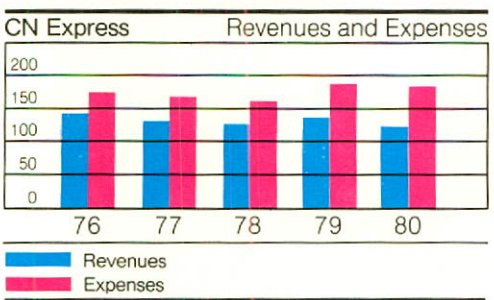
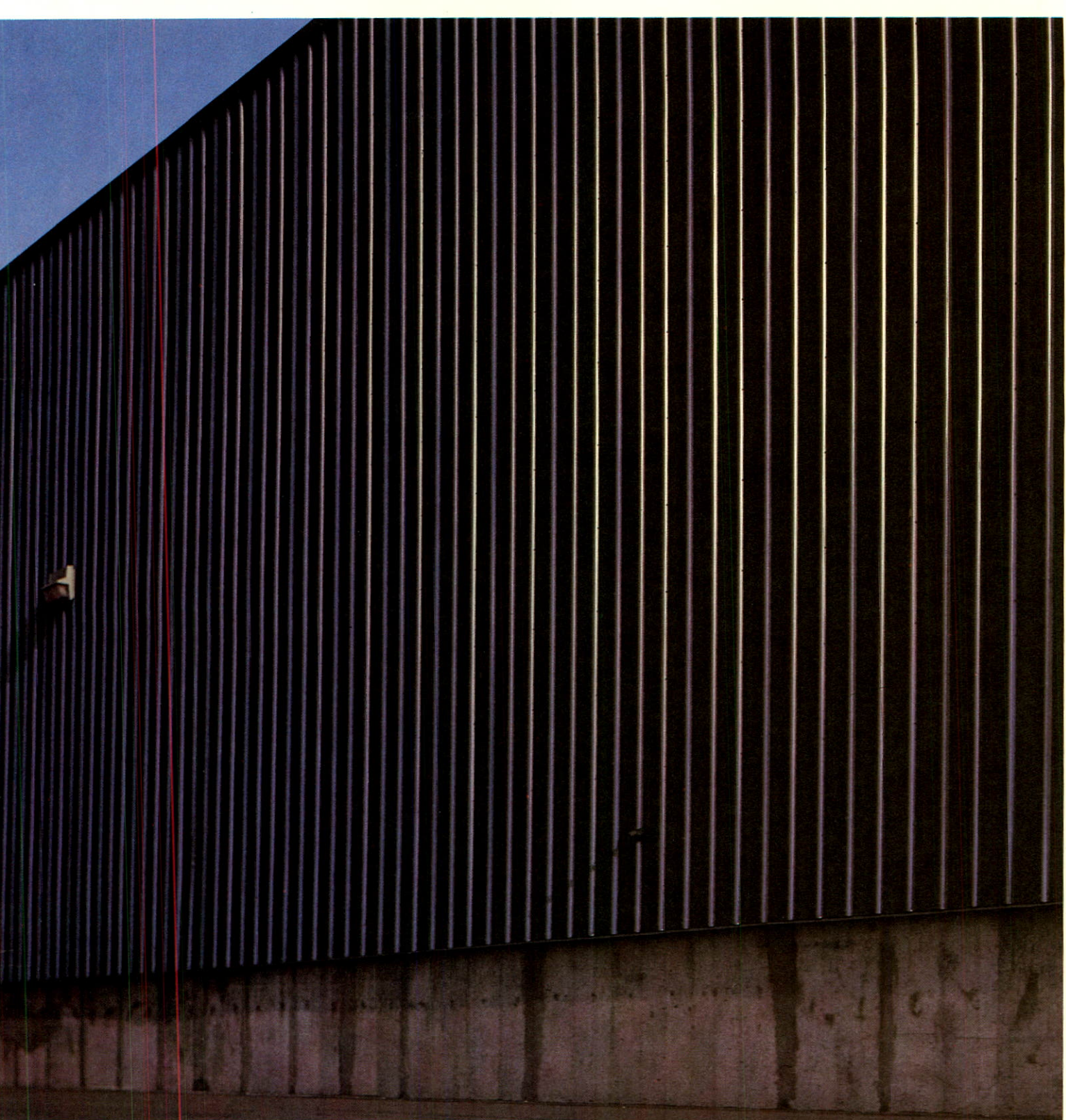
There were some tariff increases but the volumes of both parcel and LTL-type traffic showed marked declines reflecting both the slow-down in the Canadian economy and the higher market share taken by specialized parcel and courier services.

The Express deficit represents a severe drain on the resources of the Corporation and demands a continuing thrust to simplify the product line and arrive at a reduced operational network compatible with the small share of total traffic which Express now attracts.

In keeping with this need, it was announced in late 1980 that CN Express would withdraw its Rapidex package tariff early in 1981 and would implement market concentration on larger multi-piece shipments. Concurrently, it is planned to close a number of small terminals and increase the use of local trucking firms to service communities on lighter density routes.

A newly-developed computer control system moved into the final stages of implementation and will make a substantial contribution in 1981 in terms of both improved efficiency and marketing support.





*A CN Express unit takes a shipment from an industrial plant in Montreal. In response to market demand the move in CN Express is away from small package traffic and towards such heavier industrial shipments.*

## CN Hotels and Tower

CN Hotels and Tower had an excellent year, earning \$2.6 million compared with a loss of \$1.6 million in 1979. All sectors showed increased profit for the year mainly from room rate increases, a reflection of general industry trends. Overall business volume was up, especially in Vancouver and St. John's.

In Montreal the Hilton-operated Queen Elizabeth earned \$1.8 million, compared to \$0.8 million in 1979, while the Hotel Vancouver earnings increased from \$0.1 million to \$1.3 million.

Income of CN-operated hotels rose from \$1.7 million in 1979 to \$2.4 million in 1980. Most of the hotels in the CN chain reported gains in income but there was a fall-off of \$0.3 million at the Chateau Laurier, attributed to a general softening in demand in the Ottawa hotel market.

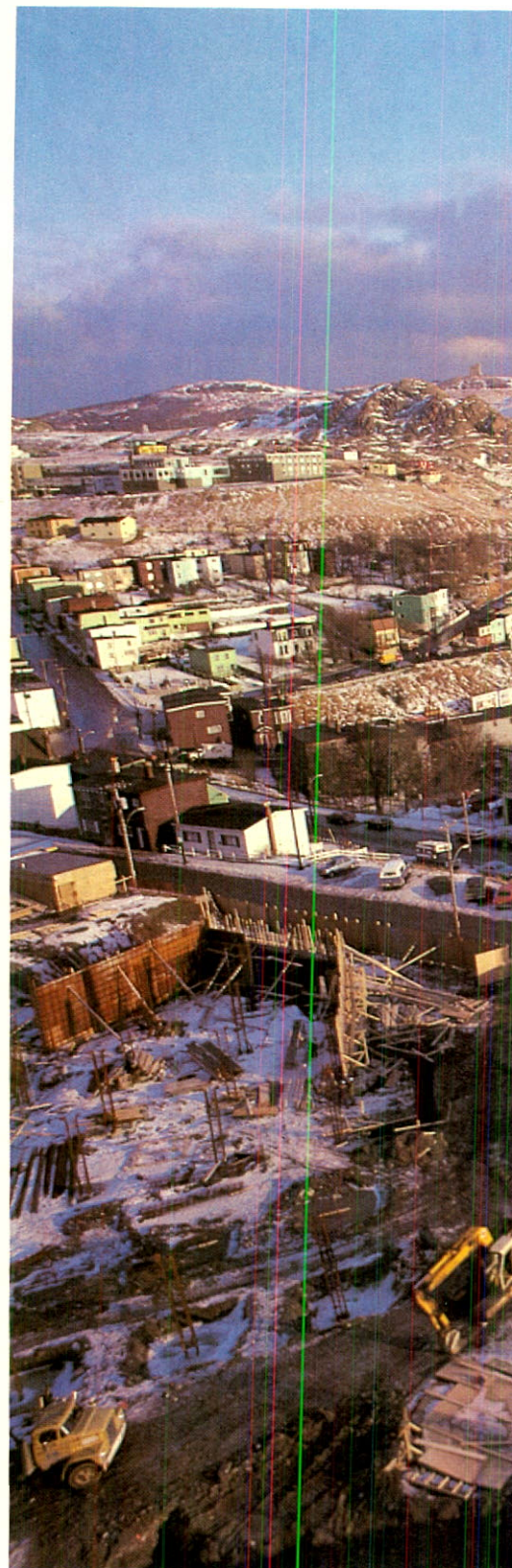
Earnings of the CN Tower, which was transferred to the Hotels Division on January 1, 1980, improved from \$2.1 million in 1979 to \$2.7 million in 1980. The increase was attributed mainly to the full year effect of the successful operation of the discotheque "Sparkles" which opened in October 1979.

Agreement was reached on a joint venture for the development of a new 312-room hotel in St. John's, Newfoundland, to replace the present 133-room structure. As well as being part owner, CN will have a long term contract for the management of the hotel. Construction work commenced in October 1980 and completion is scheduled for mid-1982.

The average number of employees in 1980 was 1,348, a reduction of 11.4%. This reduction was due mainly to the sale of the Hotel Fort Garry.

### CN Hotels and Tower Comparative Income Statement

	Income		
	1980	1979	Increase (Decrease)
Hotel Newfoundland	\$ 0.7	\$ 0.5	\$ 0.2
Hotel Nova Scotian	0.3	0.2	0.1
Hotel Beauséjour	-	0.1	(0.1)
Chateau Laurier	1.0	1.3	(0.3)
Hotel Macdonald	0.4	0.2	0.2
Jasper Park Lodge	1.6	1.4	0.2
Hotel Fort Garry	-	(0.2)	0.2
The Queen Elizabeth	1.8	0.8	1.0
Place Ville Marie Restaurants	(0.6)	(0.6)	-
Hotel Vancouver	1.3	0.1	1.2
CN Tower	2.7	2.1	0.6
Unallocated divisional items	(6.6)	(7.5)	0.9
<b>Income (Loss)</b>	<b>\$ 2.6</b>	<b>\$ (1.6)</b>	<b>\$ 4.2</b>





CN Hotels and Tower	Income (Loss)
	80
	79
	78
	77
	76

(12) (10) (8) (6) (4) (2) 0 2 4 6

*From the top of the old Hotel Newfoundland in St. John's a construction man gets an idea of the prospect that a new, joint-venture hotel will command.*

Canadian National marine operations on the east coast of Canada are carried on by CN Marine Inc., which operates the principal ferry services under contract to the Government of Canada, and by CNM Inc., which serves as a holding company for other marine-related activities. Total marine operations produced net income of \$8.8 million in 1980, unchanged from the 1979 level. Increased income from vessel operations was offset by a loss on Newfoundland Dockyard operations.

### **CN Marine Inc.**

CN Marine Inc. concluded a second year of successful operation of East Coast ferry services under contract to the Government of Canada. Earnings for 1980 amounted to \$8.7 million, an increase of \$0.9 million over 1979. Revenues and expenses both rose, with productivity gains accounting for the improved earnings.

CN Marine Inc. embarked on a planned renewal of ship and terminal facilities during the year. Construction began on a major new vessel to operate year round between Prince Edward Island and New Brunswick. Tenders were called to modify and increase carrying capacity of another ferry which operates between Nova Scotia and New England.

The year was the first full one for the operation of RESMAR, the North Sydney based reservation and information system which enables the Company to increase vessel utilization and better control its food services.

The Company restructured its marketing section during the year and launched a program of using intermediaries - such as travel agents, auto associations and tour bus operators - to help achieve its business objectives.

The number of passengers carried in 1980 was 2,305,714, a decrease of 0.4% from 1979. The number of passenger related vehicles handled was 705,763, an increase of 3.2%. Commercial vehicles

at 231,583 and rail cars at 32,767 experienced decreases of 5.6% and 23.1% respectively.

### **CNM Inc.**

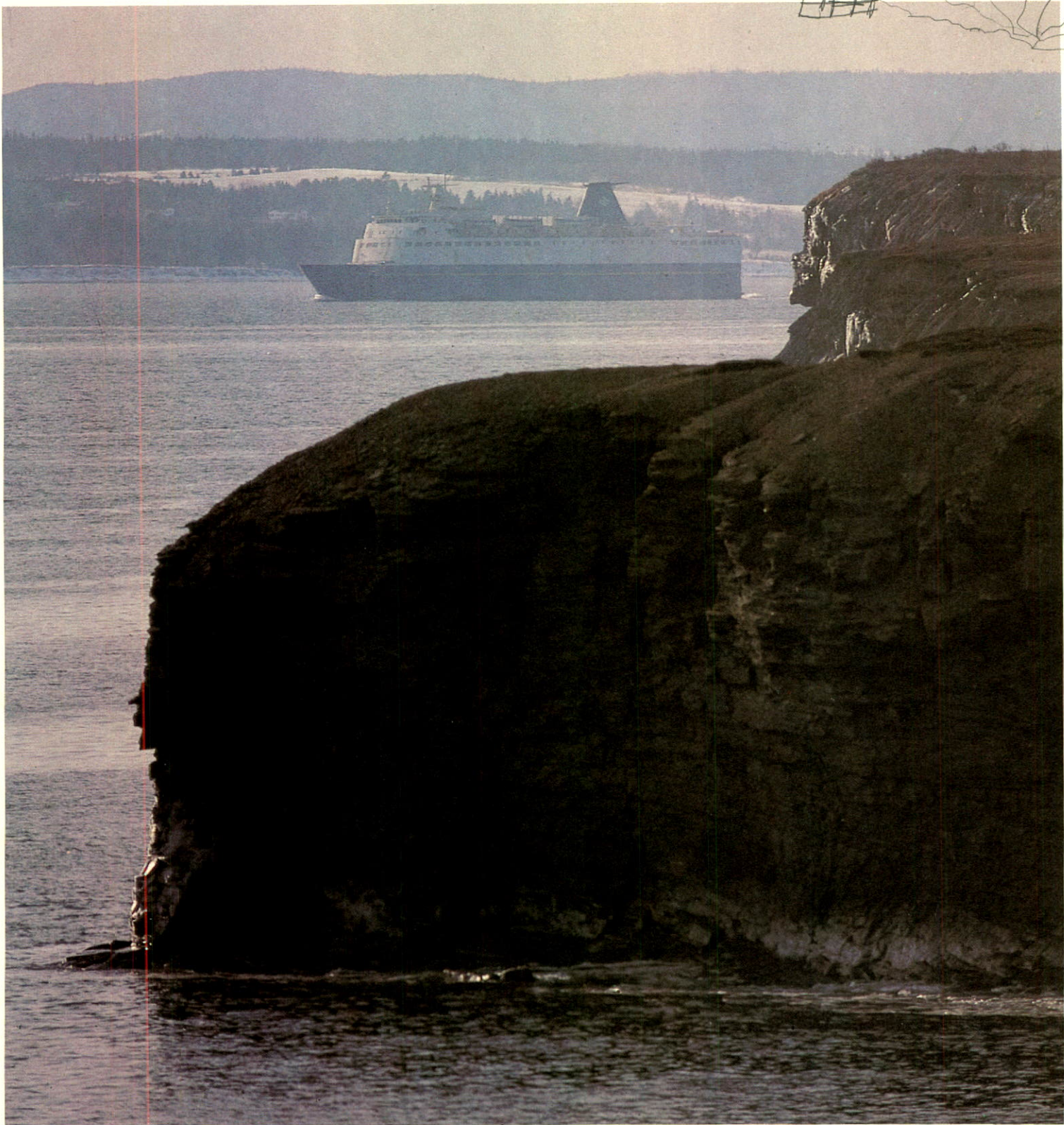
CNM Inc. is the holding company for marine ventures other than Ferry services operated under contract with the Government of Canada. CNM Inc. manages the interests of the Corporation in Coastal Transport Limited which provides a ferry service between Black's Harbour and Grand Manan Island on a management fee basis for the province of New Brunswick.

The Newfoundland Dockyard at St. John's recorded a deficit of \$0.3 million in 1980 compared with a profit of \$0.6 million the previous year. Negotiations continued with respect to a possible expansion and rationalization of the facility.

Earnings of CNM Inc. in 1980 were \$0.1 million, \$0.9 million below last year's level. Loss on Newfoundland Dockyard operations accounted for the decline.

CNM Inc. holds a share interest in Halifax Industries (Holdings) Limited which operates the shipyard at Halifax and a ship repair facility at Dartmouth. CNM Inc. also holds an interest in Seabase Limited which provides shore-based services for drilling rigs and other facilities involved in oil and gas exploration on the East Coast. Within this general framework the Corporation is examining other opportunities for involvement in commercial marine-related ventures.





*Marine Atlantica near North Sydney, Nova Scotia headed for Port aux Basques, Newfoundland.*

## TerraTransport

TerraTransport, CN's multi-mode transportation division in Newfoundland, was formed in 1979 as a separate division to operate rail, intermodal, package and bus service on the island. The Division has also assumed responsibility for the movement of rail traffic from North Sydney to Port aux Basques and has entered into an agreement with CN Marine Inc. and the Federal Government in regard to this service.

TerraTransport continued to operate at a substantial deficit despite the best of management efforts.

In 1980 the Division lost \$26.9 million, an increase of \$2.1 million over 1979. The increased loss came mainly from the impact of inflation on expense levels and a decline in freight traffic volume offset in part by special Government of Canada payments to make up for the impact of deferred manpower adjustments.

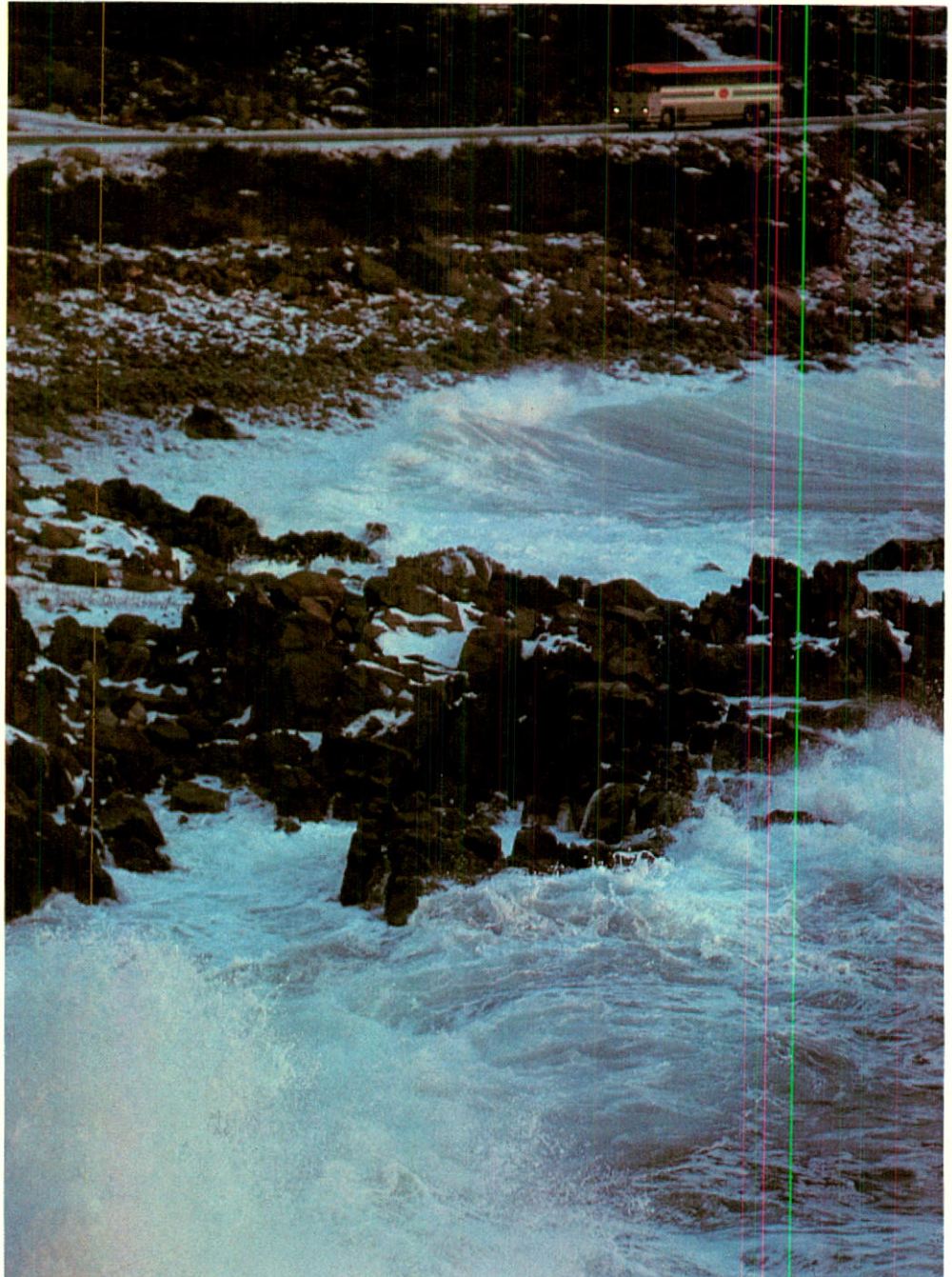
The heavy financial deficit of TerraTransport arises from the fact that rail traffic in Newfoundland is currently about one-tenth of the volume required to break even and potential increases are limited by the presence of strong water and road competition.

Revenues of TerraTransport for 1980 were \$44.1 million compared with \$41.4 million the previous year. Expenses totalled \$71.0 million, compared with \$66.2 million in 1979.

Capital expenditures amounted to \$4.2 million in 1980 including \$1.6 million for basic maintenance and \$1.3 million for new buses.

The average number of employees in 1980 was 1,287, a reduction of 2.4% from the previous year.

Discussions continue with both Federal and Provincial governments aimed at developing a program which will acknowledge commitments made in regard to the continuation of rail service in Newfoundland and at the same time reduce the serious financial impact on CN.



*A TerraTransport bus in Newfoundland.*

## Real Estate

Income from the newly established Real Estate Division amounted to \$21.4 million, \$3.9 million higher than in 1979. The improvement was attributable to higher profit on land sales.

The new Real Estate Division was formed to realize the full commercial potential of CN's real estate holdings. In pursuit of this objective, construction has begun on a new, energy-efficient office building near Central Station in Montreal by CANAPREV, a company partly owned by CN. New development proposals are being aggressively pursued with studies initiated for major projects in Montreal, Toronto, Winnipeg and Edmonton.



*General Trust Building under construction in Montreal. A joint venture of CN's Real-Estate Division and Prenor Group.*

## Miscellaneous

The loss in the Miscellaneous sector in 1980 amounted to \$52.8 million, compared to a loss of \$25.0 million in 1979, an increase of \$27.8 million. This increased loss resulted mainly from the inclusion in 1979 of accumulated payments from the Government of Canada for prior years' losses on branch lines and passenger services.

## Consulting Activities

CANAC Consultants Limited produced net income of \$0.8 million compared with \$0.6 million in 1979 and \$0.3 million in 1978.

Among other projects, a management and training contract for Chemin de fer de Boké, Kamsar, Guinea, was extended for a period of five years while the technical assistance contract for Zambia Railways, sponsored by the Canadian International Development Agency, was extended for a period of one year, capping a decade of CANAC service to the Zambia Railways. CANAC also negotiated a one-year extension to a rail line construction project in Brazil. Activities continued in the multi-million dollar procurement of Canadian-built rolling stock and track materials for railways in Cameroon, Mali and Ivory Coast. In addition, CANAC signed a technical assistance agreement with the Ghana Railway Corporation and secured a significant contract with the United States Railway Association.



*Signing of a technical assistance agreement between CANAC and the Ghana Railway Corporation.*

Contract work continued on a World Bank sponsored contract at the Régie des Chemins de Fer Abidjan-Niger, Ivory Coast, and with the Tanzania Railway Corporation. Currently, additional contract proposals are being negotiated for technical assistance to, and facilities studies of, the Régie des Chemins de Fer Abidjan-Niger. Meanwhile development work continued in the Middle and Far East, Africa and Latin America.

From 10 January 1980, CANAC was represented in Mexico by Amexder S.A. de C.V. No remuneration was payable or paid to this representative.

The Canalog sector has carried out an increased number of studies for VIA Rail Canada Inc., the Ministry of Transport and other clients.

## People and Organization

### Organization Change

Reorganization of the Corporation along divisional or profit centre lines continued in 1980.

As part of the reorganization process, which is now approaching its final stages, there was further delegation of responsibilities to the Divisions in 1980 and appropriate adjustments. At the corporate level, the position of Vice-President, Finance was established with the objective of integrating various activities. Certain work previously carried out in the office of the Corporate Treasurer was assigned to appropriate Divisions.

### Human Values

The human values associated with organizational change continue to be of major concern to Canadian National.

One expression of this concern was the formation early in 1980 of an Organization Design and Development Unit within the Personnel department. The long term objective of this unit is to assist management in developing highly motivated work groups and organization structures

allowing the most productive use of the skills, talent and experience of CN's people as well as high levels of job satisfaction.

### Management Services

Demand for computerized, on-line information systems provided by Management Services continued to grow and extra capacity was added in 1980.

As use of computers increases, however, the security and reliability of these machines is becoming more and more crucial. In this connection Management Services has been instrumental in the implementation of a dual site systems installation which permits the Traffic Reporting And Control System (TRACS) of CN Rail to be run from either of two major computer centres. In 1980, several tests of the operation of TRACS from the remote site were carried out. It is believed that CN now has better security in this area than any other railroad.

An example of a system which aids CN, and also our customers, was the successful completion in 1980 of a pilot test in which CN's waybill control process was able to print U.S. customs information automatically for the shipper, thus eliminating the need for the shipper to prepare these extra documents.

A "management support system" which offers electronic filing and retrieval of documents and electronic exchange of messages as well as the more conventional "word processing capabilities" was implemented in CN Rail's Accident Prevention and Safety Section during the year. This system has resulted in a centralized file containing data on all accidents and injuries on the entire system. Access to this information is available from terminals located at all regional safety offices.

During 1980 the computer-based control system which is a significant tool in the efforts of CN Express to improve its operations had several new features added. Examples were "automated freight billing" and "computer rating".

**Purchases and Materials Management**

Purchases and Materials Management undertook the development of an advanced materials management system during 1980. When fully implemented in 1983 this system will enable Purchases and Materials Management to operate more effectively in purchasing, inventory management, warehousing, materials distribution, accounts payable and materials accounting. An integrated computer system will be provided for both daily transaction requirements and management reporting and control and CN will have a unique management tool contributing to increased productivity.

**Labour Relations**

During the year, the Corporation, in conjunction with CP Rail, made submissions and appeared before an industrial Inquiry Commission established by the Canada Department of Labor. The one-man commission was looking at the level and structure of CN-CP Shop Craft employees' compensation and comparing it with the historical compensation movements of other railway employees and external groups of employees doing comparable work. Hearings commenced in July and concluded in November. The report of the commission is expected early in 1981.

A special agreement was signed with the Canadian Brotherhood of Railway Transport and General Workers establishing conditions and benefits to apply to employees adversely affected by staff reductions in CN Express and other Divisions.

Negotiations were completed with respect to the introduction of a company paid drug plan as provided for in the January 1, 1979 master agreement. This plan came into effect December 31, 1980.

**Official Languages**

Use of both official languages was expanded at all levels of the Corporation during 1980. The number of francophone employees increased at Montreal headquarters and in senior management ranks

across Canada. Of the university graduates hired by CN in 1980 about 24% were francophone. In the province of Quebec, French is the working language of CN's regional operations.

Service to the public is provided in both official languages wherever there is a significant demand across Canada. Toll-free long distance telephone service is provided in areas where service in both official languages may occasionally be required but where the demand is not great enough to justify on-site bilingual capability.

Linguistic Services continue to provide translation, terminology and language training services. Emphasis was placed on giving all sectors of the Corporation access to material needed to operate in both official languages.

**Medical Services**

During the year Medical Services accommodated about 100,000 visits to clinics across the System for pre-placement and periodic medical examinations or treatment of injury or illness. An Occupational Medical program included employee assistance as well as the promotion of physical fitness.

Paramedical examination service was provided to employees in the remote areas of the country by means of mobile medical vans.

There has been a demand for increased training in First-Aid and Cardio-Pulmonary Resuscitation in all areas of the Company and this has increased the workload of first-aid supervisors and local instructors.

New government legislation regarding the working environment has brought about increased attention to industrial hygiene and an extra workload in this area also.

**Suggestion Plan**

In 1980, the Suggestion Plan produced first-year net savings of \$520,725 and resulted in a wide range of operational

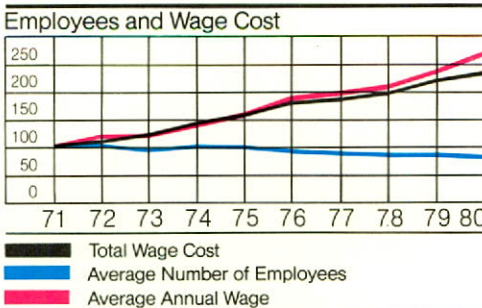
improvements – the best results achieved since the incentive award program was initiated in 1949. It should be noted, however, that savings generated in any year recur for at least 5 years; therefore, the figure of \$520,725 does not take into account savings from proposals which continue to yield benefits from the four preceding years.

In the year under review, awards totalling \$124,923 were granted for 210 suggestions. A total of 697 suggestions were processed, as compared with 482 in 1979. Of the 1980 total, 188 suggestions were adopted and 509 declined. The percentage of suggestions adopted was 26.9%, or better than one in four. The significant savings achieved in 1980 reflect a marked improvement in the quality of employees' ideas and a growing awareness on the part of employees as to the value of the program.

A total of 594 new suggestions was received in 1980, as compared to 579 in 1979, a clear indication that the Suggestion Plan continues to draw strong support from employees.

**Pensioners' Benefits**

A total of 45,170 pensioners and beneficiaries received \$177.7 million in 1980 compared with 44,211 pensioners and beneficiaries receiving \$161.7 million in 1979.



Index 1971: 100

**Companies included in the Consolidated Financial Statements  
of the Canadian National Railway System as at December 31, 1980**

**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  
 Central Vermont Railway, Inc.  
 Chalut Transport (1974) Inc.  
 Chapman Transport Limited  
 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  
 \*DTI Enterprises Inc.  
 Duluth, Winnipeg and Pacific  
 Railway Company  
 Eastern Transport Limited  
 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  
 Hoar Transport Company Limited  
 Husband International Transport  
 (Ontario) Limited  
 Husband Transport Limited  
 Midland Superior Express Limited  
 The Minnesota and Manitoba  
 Railroad Company  
 The Minnesota and Ontario Bridge  
 Company  
 Mount Royal Tunnel and Terminal  
 Company, Limited  
 The Northern Consolidated Holding  
 Company Limited  
 \*\*\*NorthwesTel Inc.  
 Provincial Tankers Limited  
 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.

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

The Belt Railway Company of  
 Chicago  
 Canaprev Inc.  
 Chicago & Western Indiana Railroad  
 Company  
 Compagnie de Gestion de Matane  
 Inc.  
 Computer Sciences Canada, Ltd.  
 The Detroit & Toledo Shore Line  
 Railroad Company  
 Detroit Terminal Railroad Company  
 East Yard Development Ltd.

Eurocanadian Shipholdings Limited  
 Halifax Industries (Holdings) Limited  
 Halterm Limited  
 Intercast S.A.  
 Metro Centre Developments Limited  
 The Public Markets, Limited  
 \*Seabase Limited  
 The Shawinigan Falls Terminal  
 Railway Company  
 Société du port ferroviaire de Baie  
 Comeau-Hauterive  
 Telesat Canada  
 The Toronto Terminals Railway  
 Company  
 \*Trailer Train Company

\*Acquired in 1980  
 \*\*Formerly Canadian National  
 Realities, Limited  
 \*\*\*Formerly Northwest  
 Telecommunications Inc.

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

## Consolidated Financial Statements





## Consolidated Statement of Income

		Year ended December 31	
		1980	1979
		(in thousands)	
CN Rail	Revenues	\$2,645,181	\$2,345,529
	Expenses	2,394,652	2,120,073
	Income	250,529	225,456
Grand Trunk Corporation	Revenues	338,322	312,627
	Expenses	329,168	282,996
	Income	9,154	29,631
CN Telecommunications	Revenues	192,335	174,084
	Expenses	159,114	148,609
	Income	33,221	25,475
CN Trucking	Revenues	80,298	75,876
	Expenses	78,165	72,696
	Income	2,133	3,180
CN Express	Revenues	126,918	139,318
	Expenses	180,050	186,510
	Loss	(53,132)	(47,192)
CN Hotels and Tower	Revenues	56,598	55,825
	Expenses	54,021	57,412
	Income (loss)	2,577	(1,587)
CN Marine Inc.	Revenues	163,268	153,967
	Expenses	154,535	146,146
	Income	8,733	7,821
CNM Inc.	Revenues	14,696	13,276
	Expenses	14,650	12,268
	Income	46	1,008
TerraTransport	Revenues	44,112	41,409
	Expenses	70,983	66,242
	Loss	(26,871)	(24,833)
Real Estate	Revenues	27,483	22,831
	Expenses	6,074	5,345
	Income	21,409	17,486
Miscellaneous	Loss	(52,823)	(24,991)
Income before income taxes and extraordinary item		194,976	211,454
Income taxes		91,054	98,250
Income before extraordinary item		103,922	113,204
Reduction in income taxes on application of prior years' losses		88,804	94,961
Net income		\$ 192,726	\$ 208,165

## Consolidated Balance Sheet

		December 31	
		1980	1979
		(in thousands)	
<b>Assets</b>			
<b>Current Assets</b>	Cash	\$ 46,032	\$ 65,160
	Accounts receivable	416,667	393,325
	Material and supplies	378,269	274,421
	Other current assets	176,891	137,039
		1,017,859	869,945
	Insurance Fund	29,539	24,165
	Investments	93,380	181,613
	Property Investment	4,398,974	3,971,245
	Other Assets and Deferred Charges	105,461	96,163
		<b>\$5,645,213</b>	<b>\$5,143,131</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>	Bank loans	\$ 50,288	\$ 1,400
	Accounts payable	501,773	383,502
	Accrued charges	192,257	168,230
	Current portion of long-term debt	149,846	17,268
	Other current liabilities	151,087	123,080
		1,045,251	693,480
	Provision for Insurance	29,539	24,165
	Other Liabilities and Deferred Credits	180,017	151,871
	Long-Term Debt	1,441,171	1,505,237
	Minority Interest in Subsidiary Companies	4,345	4,345
<b>Shareholder's Equity</b>	Capital stock of Canadian National Railway Company; 6,262,074 (1979 - 6,208,722) common shares of no par value authorized, issued and outstanding	\$2,475,511	\$2,448,835
	Retained earnings	469,379	315,198
		<b>\$5,645,213</b>	<b>\$5,143,131</b>

On behalf of the board: J.A. Dextraze, Director  
R.A. Bandeen, Director

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Retained Earnings

	Year ended December 31	
	1980	1979
	(in thousands)	
Balance, beginning of year	\$315,198	\$148,666
Net income for the year	192,726	208,165
	507,924	356,831
Dividend	38,545	41,633
Balance, end of year	<b>\$469,379</b>	<b>\$315,198</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Financial Position

		Year ended December 31	
		1980	1979
		(in thousands)	
	Working Capital, beginning of year	\$ 176,465	\$ 157,362
<b>Funds Provided</b>	Net Income for the year	192,726	208,165
	Add/(deduct) items not involving the current provision or use of funds		
	–depreciation	200,505	187,774
	–share of net income retained by investees accounted for by equity method, less dividends received	2,967	(1,744)
	–amortization of discount on long-term debt	767	778
	–other	14,547	12,696
	Funds from operations	411,512	407,669
	Net proceeds from disposal of assets and investment	27,248	27,553
	Long-term investment maturing within one year	108,000	–
	Issuance of long-term debt	82,388	206,525
	Issuance of capital stock	26,676	104,361
	Repayments of advances and balance of sale of assets	8,753	11,180
	<b>Total Funds Provided</b>	<b>664,577</b>	<b>757,288</b>
<b>Funds Used</b>	Additions to property investment	561,014	558,285
	Investments		
	–acquisition of subsidiaries	\$ 48,928	–
	less working capital acquired	(1,429)	–
	–purchase of acquired subsidiary bonds	14,700	–
	–other	51,326	113,936
	Dividend	38,545	41,633
	Reduction of long-term debt	155,350	23,894
	Discount on issuance of debentures	–	437
	<b>Total Funds Used</b>	<b>868,434</b>	<b>738,185</b>
<b>Increase (Decrease) in Working Capital</b>		(203,857)	19,103
	<b>Working Capital (Deficiency), end of year</b>	<b>\$ (27,392)</b>	<b>\$ 176,465</b>

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, the Company's share of the assets, liabilities, revenues and expenses of CNCP Telecommunications which is accounted for by the proportionate consolidation method, and, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada.

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

**b. Income Reporting by Division**

In presenting the results by division, 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. Insurance Fund**

The System is self-insured for various risks, maintaining a separately invested fund. The provision for insurance represents the estimated amount of self-insured losses to be adjusted.

**e. Property**

Property is carried at cost, which, in the case of properties brought into the System at 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 property is carried out in accordance with rules issued by the Canadian Transport Commission and the Canadian Radio-television and Telecommunications Commission respectively (Canadian property), and the Interstate Commerce Commission (United States property), except, in the case of United States property, 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 interest costs and labour costs relating to track material replacement 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.

**f. 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 communications systems	4.37%

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

**g. 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.

**h. Pensions**

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

Prior service costs are charged to operations over varying periods to 2027, as set out in Note 8, and are being funded by annual payments covering principal and interest over varying periods to 2006 (2015 in the case of U.S. Plans) as permitted by regulatory authorities.

**i. Foreign Exchange**

Assets and liabilities in foreign currencies have been translated into Canadian dollars at current rates except for investments, property investment 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 property investment.

## Note 2: Investments

	Percentage Of Voting Interest	December 31	
		1980	1979
(in thousands)			
<b>Jointly-operated companies, on equity method</b>			
Chicago & Western Indiana Railroad Company	20 %	\$ 7,122	\$ 7,156
The Detroit & Toledo Shore Line Railroad Company (a)	50 %	6,080	6,093
Northern Alberta Railways Company (a)		—	26,503
The Toronto Terminals Railway Company	50 %	10,882	9,182
Other		4,175	4,066
		28,259	53,000
<b>Other companies, at cost</b>			
The Belt Railway Company of Chicago	7.69 %	603	590
Eurocanadian Shipholdings Limited (b)	18 %	61,514	11,900
Furness, Withy & Company, Limited	3.33 %	—	5,773
Intercast S.A.	18 %	100	100
Seabase Limited	15 %	75	—
Telesat Canada	3.75 %	2,250	2,250
Trailer Train Company	2.44 %	579	—
		65,121	20,613
<b>Term deposits, maturing February 2, 1981</b> (classified as a current asset at December 31, 1980)		—	108,000
<b>Total</b>		<b>\$ 93,380</b>	<b>\$ 181,613</b>

a. On June 24, 1980, Grand Trunk Western Railroad Company, a wholly-owned subsidiary, acquired for cash all the outstanding shares of the Detroit, Toledo and Ironton Railroad Company.

Effective December 31, 1980, the Company acquired the 86,400 shares of the capital stock of Northern Alberta Railways Company not previously held by the Company and purchased at par the outstanding 5% First Mortgage Bonds held by the seller for cash. Northern Alberta Railways Company was then amalgamated with the Company on the same date.

These acquisitions were accounted for as purchases and consolidated or amalgamated, as the case may be, from the dates of acquisition. The businesses acquired carry on railway transportation activities.

The following is a summary of net assets acquired:

	Detroit, Toledo and Ironton Railroad Company	Northern Alberta Railways Company
	(in thousands)	
Assets acquired	\$ 40,020	\$ 41,498
Liabilities assumed	10,892	21,698
<b>Net assets acquired</b>	<b>\$ 29,128</b>	<b>\$ 19,800</b>

The Interstate Commerce Commission, in its decision approving acquisition by the Grand Trunk Western Railroad Company of the Detroit, Toledo and Ironton Railroad Company, required the former to either acquire the remaining 50% ownership share of The Detroit & Toledo Shore Line Railroad Company or to divest itself of its 50% ownership. The shares of The Detroit & Toledo Shore Line Railroad Company were placed in the hands of an independent voting trustee in June 1980 pending implementation of the ICC decision in this respect.

- b. During 1980, the Company made additional investments of U.S. \$41.87 million (\$49.61 million in Canadian funds) in preference shares issued by Eurocanadian Shipholdings Limited.
- c. Effective January 1, 1980, the Company acquired a 50% interest in the newly formed partnership, CNCP Telecommunications. A summary of the Company's share of the assets, liabilities, revenues and expenses of the partnership included in the consolidated financial statements through CN Telecommunications follows:

	(in thousands)
Assets	\$ 34,027
Liabilities	\$ 15,683
Revenues	\$118,837
Expenses	\$ 88,288

**Note 3: Property Investment**

	December 31, 1980			December 31, 1979		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
	(in thousands)					
Railway						
Canadian Lines (1)	\$5,888,608	\$2,403,001	\$3,485,607	\$5,453,260	\$2,318,380	\$3,134,880
Grand Trunk Corporation	505,974	135,242	370,732	432,485	127,926	304,559
	6,394,582	2,538,243	3,856,339	5,885,745	2,446,306	3,439,439
CN Telecommunications	553,693	192,439	361,254	525,632	173,729	351,903
CN Trucking	58,957	28,388	30,569	54,985	26,312	28,673
CN Hotels and Tower	189,589	62,404	127,185	184,726	58,284	126,442
Other	33,239	9,612	23,627	33,688	8,900	24,788
	835,478	292,843	542,635	799,031	267,225	531,806
	\$7,230,060	\$2,831,086	\$4,398,974	\$6,684,776	\$2,713,531	\$3,971,245
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada and estimated accumulated depreciation	\$ 864,455	\$ 460,051	\$ 404,404	\$ 860,470	\$ 443,879	\$ 416,591

(1) Includes CN Rail, CN Express, CN Marine, TerraTransport and Miscellaneous properties.

## Note 4: Long-Term Debt

	Maturity	Currency in which payable	December 31	
			1980	1979
		(in thousands)	(in thousands)	
<b>Bonds and Debentures</b>				
Canadian National 4% 23 Year Bonds (a)	Feb. 1, 1981	Canadian	\$ 300,000	\$ 300,000
Canadian National 5-3/4% 25 Year Bonds (a,b)	Jan. 1, 1985	Canadian	70,442	72,442
Canadian National 8-3/8% 10 Year Bonds	Nov. 15, 1986	U.S. \$85,000	83,232	83,232
Canadian National 8-7/8% 10 Year Bonds (b)	Mar. 1, 1987	Canadian	51,950	52,800
Canadian National 5% 27 Year Bonds (a,b)	Oct. 1, 1987	Canadian	110,782	114,282
Canadian National 9-1/4% 20 Year Sinking Fund Debentures (b)	Mar. 15, 1998	U.S. \$120,000	133,533	133,533
Canadian National 8-3/8% 25 Year Sinking Fund Debentures (b)	July 1, 2002	U.S. \$100,000	105,935	105,935
Canadian National 9.7% 25 Year Sinking Fund Debentures (b)	July 15, 2004	U.S. \$150,000	174,940	174,940
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
<b>Total Bonds and Debentures</b>			<b>1,032,837</b>	<b>1,039,187</b>
<b>Government of Canada Loan and Advances (c)</b>				
Government of Canada consolidated loan (d)		Canadian	241,919	247,631
Canadian Government Railways advances for working capital		Canadian	14,970	16,984
<b>Total Government of Canada Loan and Advances</b>			<b>256,889</b>	<b>264,615</b>
<b>Other</b>				
Amounts owing under equipment purchase agreements (e)		U.S.	234,129	217,699
Bank loan 6-3/4% (f)		Swiss Francs	64,474	-
Promissory note 9-5/8% (g)		Canadian	2,400	2,592
<b>Total Other</b>			<b>301,003</b>	<b>220,291</b>
			<b>1,590,729</b>	<b>1,524,093</b>
Less:				
Unamortized discount on long-term debt			1,850	2,617
Current portion of long-term debt, at historical exchange rates (Note 14)			147,708	16,239
			<b>149,558</b>	<b>18,856</b>
<b>Long-Term Debt</b>			<b>\$1,441,171</b>	<b>\$1,505,237</b>

a. Guaranteed by the Government of Canada.

b. It is a condition of the 5-3/4% bonds due in 1985 and the 5% bonds due in 1987, that the Company will use its best efforts to purchase during each quarter of



each calendar year to maturity when available in the open market at prices not greater than their respective original issue prices, at least 1/2 of 1% of the principal amount of the issue.

It is a condition of the 8-7/8% bonds due in 1987 that the Company will use its best efforts to purchase bonds during each of the years commencing March 1, 1980 to 1986, in the aggregate principal amounts of \$1.2 million, in each case at a price not exceeding the offering price (99-1/4).

For the 9-1/4% sinking fund debentures due in 1998, there is a mandatory sinking fund provision under which the Company will pay, before March 15, 1984, and each year thereafter to and including March 15, 1997, a sum in cash sufficient to retire on each such March 15 U.S. \$8.0 million principal amount of debentures at 100% of their principal amount.

For the 8-3/8% debentures due in 2002, there is a mandatory sinking fund provision under which the Company will pay before July 1, in each of the years 1983 to 2001 inclusive, an amount sufficient to redeem U.S. \$5.0 million principal amount of debentures at 100% of their principal amount or deliver to the sinking fund debentures otherwise acquired of an equivalent principal amount.

For the 9.7% debentures due in 2004, there is a mandatory sinking fund provision under which the Company will pay before July 15, in each of the years 1989 to 2003 inclusive, an amount sufficient to redeem U.S. \$9.5 million principal amount of debentures at 100% of their principal amount or deliver to the sinking fund debentures otherwise acquired of an equivalent principal amount.

- c. Weighted average interest rate on Government of Canada loan and advances outstanding at December 31, 1980 and 1979, was approximately 8.2% 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, 1998.
- 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 11-7/8%. As at December 31, 1980, the principal amounts are payable as U.S. \$224.4 million (December 31, 1979 – U.S. \$211.1 million).
- f. Principal of Swiss Francs 100.0 million repayable on April 9, 1985, or earlier at the Company's option.
- g. Repayable by semi-annual instalments of \$218,503, including principal and interest, to August 1, 1988.
- h. Principal repayments, including sinking fund repayments and repurchase arrangements, on debt outstanding at December 31, 1980, are as follows:

		(in thousands)
Year ending December 31:	1981	\$154,169
	1982	37,332
	1983	44,769
	1984	54,418
	1985	179,809
	1986 - 1990	466,192
	1991 - 1995	297,499
	1996 - 2000	225,225
	2001 - 2005	109,184
	2006	5,139

- i. 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 \$80.8 million (1979 – \$58.9 million).

**Note 5: Shareholder's Equity****a. Capital Stock**

During the year, 53,352 shares of the no par value common stock of the Company were issued to the Government of Canada at a value of \$26,676,000 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 as a contribution to the cost of CN Marine's capital projects.

**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. Accordingly, a dividend in the amount of \$38.5 million (1979 - \$41.6 million), representing 20% of the net income for the year, has been accrued and is included in Other current liabilities.

**Note 6: Major Commitments****a. Leases**

(i) The Company's lease commitments as at December 31, 1980, of which the significant portion is in respect of railway rolling stock, are as follows:

		Non-Cancellable Leases	
		Capital Leases	Other
		(in thousands)	
Year ending December 31:	1981	\$ 47,066	\$ 46,053
	1982	46,777	43,267
	1983	45,692	40,147
	1984	44,701	33,877
	1985	45,807	32,746
	1986 - 1990	159,095	126,588
	1991 - 1995	17,371	32,237
	1996 - 2000	6,934	16,319
	thereafter	6,924	739
Total minimum lease payments		420,367	\$ 371,973
Less amount representing imputed interest		150,463	
Present value of net minimum lease payments under capital leases		\$269,904	

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.

(ii) Rental expenses under all lease arrangements were:

	Year ended December 31	
	1980	1979
		(in thousands)
Total expenses	\$146,685	\$149,472
Expenses under capital leases	\$ 46,207	\$ 42,866

Leases entered into in 1980 which are of a capital nature are insignificant.

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

	Year ended December 31	
	1980	1979
	(in thousands)	
Net reduction in income	\$ 1,855	\$ 6,126
Increase in Assets		
Property Investment		
Leased property under capital leases	\$303,831	\$301,112
Less accumulated amortization	109,118	86,423
	\$194,713	\$214,689
Increases in Liabilities		
Current Liabilities		
Present value of obligations under capital leases	\$ 22,166	\$ 19,175
Non-Current Liabilities		
Present value of obligations under capital leases	\$269,904	\$271,542
Less current portion	22,166	19,175
	\$247,738	\$252,367

**b. Other**

The Company has a commitment at December 31, 1980, to purchase rail from a major Canadian steel producer over the period of the next forty-three months at an aggregate cost of \$146 million .

**Note 7: Subsidies**

Revenues include the following subsidies:

		Year ended December 31	
		1980	1979
		(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	\$ 97,592	\$135,216
	b. Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	17,328	18,574
	c. Other	5,532	3,100
		\$120,452	\$156,890

**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 are as follows:

		Year ended December 31	
		1980	1979
		(in thousands)	
		\$ 196,712	\$ 200,749

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

	At December 31	
	1980	1979
	(in thousands)	
Canadian plans	\$1,117,110	\$1,160,994
U.S. plans	23,566	18,411
	<b>\$1,140,676</b>	<b>\$1,179,405</b>

This amount is being charged to operations in annual amounts, including principal and interest, as follows:

	Annual Cost	
	(in thousands)	
* Includes average annual amounts where payments are based on a proportion of payroll costs.	1981-1982	\$ 132,399*
	1983-1991	126,899*
	1992	126,811
	1993	32,038
	1994-1996	26,843
	1997-2006	22,733
	2007-2008	27,727
	2009-2014	23,039
	2015	22,138
	2016-2027	22,040

The charge to operations in 1980 exceeded the funding requirement by \$9.3 million (1979 - \$13.1 million). The cumulative excess of charges to operations over funding requirements, amounting to \$64.4 million (1979 - \$55.1 million), is included in Other Liabilities and Deferred Credits.

The actuarially-computed value of vested benefits at December 31, 1977, the date of the latest actuarial valuation, exceeded the total of the pension funds at that date by \$613.3 million.

**Note 9: Miscellaneous Loss**  
Miscellaneous loss consists of the following:

	Year ended December 31	
	1980	1979
	(in thousands)	
Miscellaneous revenues	\$ 16,438	\$ 46,904
Interest		
Total interest on long-term debt	125,284	111,034
Interest on short-term borrowings	1,017	118
Interest on investments	(15,376)	(14,793)
Total interest (net)	110,925	96,359
Interest assigned to divisions	(109,325)	(92,111)
	1,600	4,248
Other expense (net) *	67,661	67,647
Total expenses	69,261	71,895
<b>Total miscellaneous loss</b>	<b>\$ 52,823</b>	<b>\$ 24,991</b>

\* Other expense (net) consists of general corporate income and expenses.

**Note 10: Income Taxes**

At December 31, 1980, loss carry-forwards for tax purposes which have not been recognized in the financial statements amounted to \$187 million. Of that amount, the tax benefits pertaining to losses of \$77 million and \$110 million are available until December 31, 1981 and 1982 respectively. Also, the undepreciated capital cost for income tax purposes exceeds the net book value of depreciable assets by about \$700 million, with the excess being available to reduce taxable income of future years.

The Company's effective tax rate in 1980 was 4.1% lower than the normal 50.8% due principally to the exclusion from taxable income of the non-taxable portion of capital gains.

**Note 11: Reclassification of Comparative Figures**

During 1980, changes were made to improve the classification of certain items and for comparative purposes the 1979 figures have been reclassified.

**Note 12: 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 1980, such revenues approximated \$579 million (1979 - \$524 million).

**c. Identifiable Assets by Division**

	December 31	
	1980	1979
	(in thousands)	
CN Rail	\$3,957,994	\$3,538,760
Grand Trunk Corporation	546,902	459,542
CN Telecommunications	408,940	392,501
CN Trucking	59,040	53,161
CN Express	69,078	70,840
CN Hotels and Tower	143,289	141,337
CN Marine	167,731	122,953
TerraTransport	62,338	59,142
Miscellaneous	229,901	304,895
<b>Total assets per Consolidated Balance Sheet</b>	<b>\$5,645,213</b>	<b>\$5,143,131</b>

Included in the above amounts are assets pertaining to the new Real Estate Division and to CNM Inc. Since details of these items are not yet available, they have not been identified as assets of those divisions.

## d. Capital Expenditures and Depreciation by Division

	Capital Expenditures*		Depreciation	
	Year ended December 31		Year ended December 31	
	1980	1979	1980	1979
	(in thousands)			
CN Rail	\$408,119	\$313,202	\$134,690	\$128,003
Grand Trunk Corporation	42,311	62,700	14,028	11,424
CN Telecommunications	33,360	44,409	23,921	22,416
CN Trucking	8,900	6,486	5,596	5,170
CN Express	4,101	6,215	4,569	4,757
CN Hotels and Tower	6,594	7,035	5,655	5,374
CN Marine	49,857	107,326	8,251	7,375
TerraTransport	4,249	5,062	2,603	2,394
Miscellaneous	3,523	5,850	1,192	861
	\$561,014	\$558,285	\$200,505	\$187,774

\* Represents additions to property, plant and equipment.

Amounts for capital expenditures and depreciation pertaining to the new Real Estate Division and to CNM Inc. have not been segregated since details are in the process of development.

## Note 13: 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 1980 aggregated \$412.4 million (\$319.8 million in 1979) and the amounts receivable therefrom at December 31, 1980, amount to \$17.2 million (\$20.6 million at December 31, 1979).

b. Commencing in 1977, the Government of Canada has agreed to pay to the Company, by way of capital grants not exceeding \$141.7 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, 1980, amounted to \$136.2 million of which \$42.6 million was received in 1980 (1979 - \$36.1 million).

## Note 14: Subsequent Event

In January 1981, the Company issued and sold U.S. \$150 million (approximately \$178.8 million in Canadian funds) 14% Sinking Fund Debentures payable in U.S. funds and maturing on January 15, 2006. The sinking fund provision provides for the retirement of U.S. \$9.5 million each year beginning January 15, 1991, to retire 95% of the principal amount prior to maturity. These Debentures were issued in anticipation of the retirement of the 4% Bonds which matured on February 1, 1981. Accordingly, an amount of approximately \$175 million representing the net proceeds has been reclassified from current to long-term liabilities.

*Charette, Fortier, Hawey & Cie*

*Touche Ross & Co.*

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, 1980 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, 1980 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 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 to our notice have been within the powers of the System.

The consolidated financial statements of the System as at December 31, 1979 and for the year then ended were reported upon by another firm of chartered accountants.

*Touche Ross & Co.*

Montreal, Canada  
March 2, 1981

Chartered Accountants

**Pension Trust Funds – 1959 and 1935 Pension Plans –  
Consolidated Statement of Financial Position as at December 31**

	1980	1979
	(in thousands)	
<b>Investments</b>		
Bonds – quoted market value 1980 – \$687,372; 1979 – \$633,435	\$ 799,765	\$ 733,297
Mortgages and loans – secured by real estate	341,256	350,487
Real estate	75,542	74,369
Oil and gas properties	53,500	53,500
Equities – quoted market value 1980 – \$1,217,573, 1979 – \$777,430	900,435	614,836
Short-term investments	197,795	220,429
	2,368,293	2,046,918
Cash in banks	557	174
Accounts receivable – Canadian National Railways	6,574	6,583
Accrued interest and other assets	44,338	19,813
	2,419,762	2,073,488
<b>Amount to be funded</b>		
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	1,212,598	1,239,267
Add increases during year	–	45,464
Deduct – principal payments – Unfunded liability applicable to VIA Rail Canada Inc. pension plans	(41,742)	(45,752)
	–	(26,381)
Balance, end of year	1,170,856	1,212,598
	<b>\$3,590,618</b>	<b>\$3,286,086</b>

See accompanying notes 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 Pension Trust Funds – 1959 and 1935 Pension Plans of Canadian National Railways as at December 31, 1980. 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 pensions 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, 1977.

In our opinion, based on our examination and the actuarial certificate, this consolidated financial statement presents fairly the financial position of the Pension Trust Funds as at December 31, 1980 and the results of their 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.

The consolidated financial statement of the Pension Trust Funds as at December 31, 1979 was reported upon by another firm of chartered accountants.

Touche Ross & Co.  
Chartered Accountants.  
Montreal, Canada. March 2, 1981.



**Pension Trust Funds – 1959 and 1935 Pension Plans –  
Consolidated Statement of Financial Position as at December 31**

	1980	1979
	(in thousands)	
<b>Actuarial Liability for Pensions</b>		
	<b>\$3,286,086</b>	<b>\$3,054,781</b>
<b>Additions during year</b>		
Balance, beginning of year		
Increases in liability for pensions resulting from		
–Increases in pensions of existing pensioners	–	15,464
–Pension Plan amendments	–	30,000
	–	45,464
Contributions by employees on account of		
–Current service	70,282	65,759
–Prior years' service	8,658	7,274
	78,940	73,033
Contributions by the Company including principal payments and 1980 lump sum payments to existing pensioners of \$2,392 (1979 – nil)	185,335	185,417
Net earnings on investments	264,587	201,508
	528,862	459,958
	3,814,948	3,560,203
<b>Deductions during year</b>		
Pensions paid	171,822	155,403
Refunds on termination of service	9,358	8,510
Principal payments applied to unfunded liability	41,742	45,752
Reduction in actuarial liability for pensions on transfer of employees to VIA Rail Canada Inc.	1,408	64,452
	224,330	274,117
<b>Balance, end of year</b>	<b>\$3,590,618</b>	<b>\$3,286,086</b>

On behalf of the board; J.A. Dextraze, *Director*. R.A. Bandeen, *Director*

**Actuarial Certificate**

To the Trustee  
Canadian National Railways Pension Trust Funds

This is to certify that the actuarial liability for pensions shown in the consolidated statement of financial position of the Pension Trust Funds – 1959 and 1935 Pension Plans of Canadian National Railways as at December 31, 1980, amounting to \$3,590,618,000, in my opinion represents adequate provision for the accumulated actuarial liabilities for pensions then approved and in force, pensions awaiting approval and pensions accrued to the

above date in respect of employees then in service under the 1959 and 1935 Pension Plans.

Geoffrey B. White  
Fellow of the Canadian Institute of Actuaries

William M. Mercer Limited,  
Montreal, February 27, 1981.

Notes to Pension Trust Funds Consolidated Statement of Financial Position

**Note 1: Summary of Significant Accounting Policies**

**Plans included in Statement**

The Pension Trust Funds Consolidated Statement of Financial Position includes the actuarial liability for pensions with respect to the 1959 and 1935 Pension Plans of Canadian National Railways and the related investments and unfunded liability.

**Consolidation of Subsidiary Companies**

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

**Investment Valuation**

- a. 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;
- b. Mortgages and loans are carried at outstanding principal balances;
- c. Real estate consists of land and buildings. Land is carried at cost less encumbrances and buildings at cost less encumbrances and accumulated depreciation;
- d. Oil and gas properties, which are managed by Dome Petroleum, are carried at cost. No depletion of the properties is provided for as Dome has given a guarantee, effective until January 5, 1999, that it will, at the option of the Funds, purchase the properties for a consideration equal to their cost.
- e. 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.

**Determination of Funding Payment**

The actuarial cost method used is the accrued benefit – unit credit 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.

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

**Accounting for Contributions**

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

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

**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.

**Foreign Exchange**

Investments in United States funds, and income therefrom, are translated into Canadian funds at par. The historical cost of these investments, expressed in Canadian funds, exceeded par by \$34.4 million in 1980 and \$15.8 million in 1979. The quoted market values of these investments are translated into Canadian funds at the rate prevailing at year-end.

**2. Commitments**

Outstanding commitments to purchase mortgages and real estate investments amounted to \$26,637,500 at December 31, 1980.

**3. Reclassification of Comparative Figures**

During 1980 changes were made to improve the classification of certain items and for comparative purposes the related figures for 1979 have been reclassified.

**4. Subsequent Event**

A CNCP Telecommunications Pension Plan was established effective January 1, 1981, covering the pensions of personnel transferring from CN to CNCP Telecommunications. During 1981, the actuarial liability and the related funded amounts for these personnel will be transferred from the Pension Trust Funds to the CNCP Telecommunications pension fund.



