



Annual Report

1967



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Le Secrétaire
des Chemins de fer Nationaux du Canada
C.P. 8100, Montréal, P.Q.
enverra sur demande le texte français du Rapport annuel de 1967.

Copies of the 1967 Annual Report in French may be obtained, upon request, from:
The Secretary,
Canadian National Railways,
Box 8100, Montreal, Que.

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The Board of Directors submits
hereunder the Annual Report
of Canadian National Railways
for the year 1967.

Financial Review

General

All major services of Canadian National Railways reported higher revenues in 1967 than in the previous year but the overall financial position of the Company was adversely affected by the slowdown in the economy and by the generally higher costs of doing business.

The year's operating results, compared with 1966, are summarized in the following table:

	1967 (In Millions)	1966	Increase or (Decrease)
Gross revenues	\$1,049.9	\$998.6	\$51.3
Less non-rail revenues*	104.7	92.5	12.2
Railway operating revenues	945.2	906.1	39.1
Railway operating expenses	942.4	881.9	60.5
Net railway operating income	2.8	24.2	(21.4)
Other income	26.4	15.9	10.5
Net income before interest on debt	29.2	40.1	(10.9)
Net interest on debt	65.1	64.7	0.4
Deficit	\$ 35.9	\$ 24.6	\$11.3

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

As measured by the Gross National Product the growth rate of the economy in 1967 was about 2½% in real terms, compared with an average of more than 6% for the years 1961 to 1966. One result of this slowdown was a decline in the amount of carload freight carried by all Canadian railways. In 1967 CN's carload tonnage was down 2.1% from 1966. The economic slowdown, coupled with the effect of higher labour costs and higher prices for materials, equipment and services, are reflected in the worsening of the deficit position compared with 1966.

Revenues

Railway operating revenues for 1967 amounted to \$945.2 million, an improvement of 4.3% over 1966. The distribution of the revenues and a comparison with 1966 are given in the following table:

	1967	1966	Increase
	(In Millions)		
Freight services	\$695.3	\$684.6	\$10.7
Passenger services	83.9	67.5	16.4
Mail	13.2	12.2	1.0
Express	55.3	49.0	6.3
Other	34.4	31.0	3.4
Payments related to National Transportation Act*	63.1	61.8	1.3
Total	\$945.2	\$906.1	\$39.1

*The corresponding figure for 1966 is a grouping of \$29,196,152 for Interim Payments—Royal Commission on Transportation—and \$32,564,875 formerly classified as Freight services revenues in respect of the Freight Rates Reduction Subsidy, East-West Bridge Subsidy, At-and-East Grain Rates Subsidy and the Payment for reduced freight rates and 1964 wage awards.

The volume of freight traffic dropped off slightly in 1967 but, as seen in the above table, freight services revenues increased. This was accounted for mainly by increases in freight rates during the year. Additional factors were a 4.4% increase in piggyback revenues and a more lucrative commodity mix, with grain—a long-haul, low-rated commodity—constituting a smaller portion of the volume in 1967 than in the previous year.

Passenger services showed the greatest revenue increase (24.3%) in 1967. The heavy traffic generated by the events of Centennial Year, and particularly by Expo 67 in Montreal, accounted for a large percentage of this gain. But an important part was attributed to a positive, market-oriented approach to the passenger business.

Gross revenues from Telecommunications commercial services increased 7.2% over the previous year. Gross revenues from CN-operated hotels and from separately operated trucking companies were up 8.8% and 25.1% respectively.

Federal Government Payments

With the introduction of the new National Transportation Act, specific subsidies for Interim Payments, Wage Awards, Freight Rates Reduction, etc., were discontinued on December 31, 1966 and were replaced by payment to the railways of a transitional subsidy beginning in 1967 and continuing, in diminishing amounts, each year until 1974. Provision is made for the railways to withdraw uneconomic passenger services or branch lines subject to the approval of the new Canadian Transportation Commission set up under the Act. If the Commission decides that an uneconomic passenger service or branch line should be maintained in the public interest, the railways will be compensated, in whole or in part, for losses in respect of each specific operation. These special payments will be deductible from the transitional subsidy so long as they are smaller than the transitional subsidy. In 1967 the transitional subsidy to all Canadian railways was \$110 million and CN's share of this amount was \$63.1 million.

The amounts of federal government payments included in railway operating revenues are shown in the following comparative summary:

	1967 (In Millions)	1966	Increase or (Decrease)
Payments related to National Transportation Act	\$ 63.1	\$ —	
Interim Payments	—	29.2	
Payment re reduced freight rates and 1964 wage awards	—	17.5	
Freight Rates Reduction Subsidy	—	11.4	
East-West Bridge Subsidy	—	2.9	
At-and-East Grain Rates Subsidy	—	0.8	
	63.1	61.8	\$ 1.3
Maritime Freight Rates Act	12.1	12.2	(0.1)
Newfoundland and P.E.I. Steamship Services	28.1	24.4	3.7
Total	\$103.3	\$ 98.4	\$ 4.9

Expenses

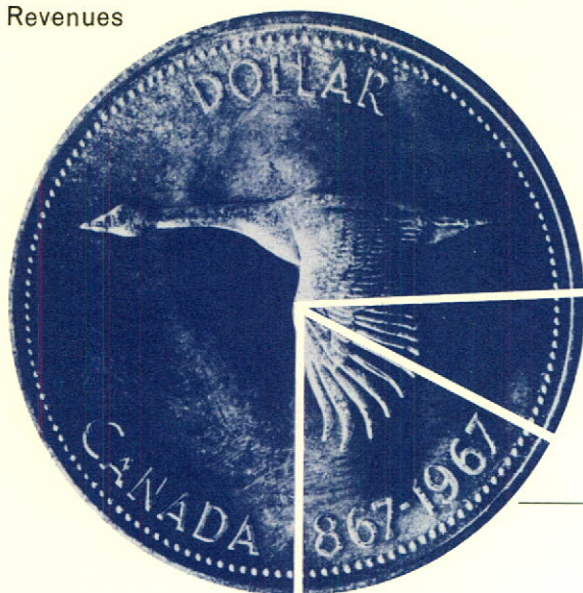
Railway operating expenses amounted to \$942.4 million in 1967, an increase of \$60.5 million or 6.9% over 1966.

The 1967 expenses included \$46.3 million for additional wage award costs in 1967 compared with 1966. This increase was made up of \$42.8 million for wage award increases, \$3.3 million for added pension costs and \$0.2 million for U.S. railroad retirement taxes.

Railway Operating
Revenues

Percent

Year 1967



73.6

Freight services

8.9

Passenger services

17.5

Other

100.0

Railway Operating
Expenses

55.6

Operating wages

7.4

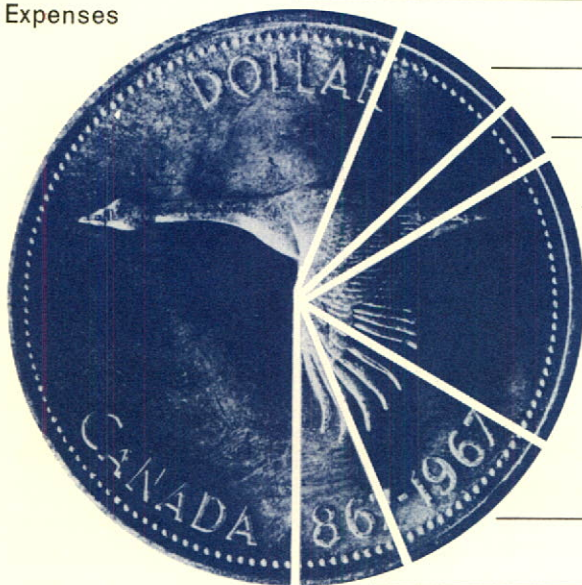
Pensions, welfare and other
employee benefits

3.4

Locomotive fuel

17.0

Material and supplies



10.1

Depreciation

6.5

Other expenses

100.0

As illustrated in the chart on the previous page, railway operating wages, pensions, welfare and other employee benefits now make up 63% of railway operating expenses compared with 62.8% in 1966, with 62.6% in 1965 and with 61% in 1964.

Excluding the additional employee compensation costs, railway operating expenses were up by \$14.2 million, or 1.6% over the previous year. Higher material prices and such factors as heavier upkeep of the diesel fleet, more repairs to passenger cars and additional expenses associated with Centennial Year passenger traffic contributed to the increased expenses.

Total System depreciation amounted to \$111.2 million in 1967, up by \$3.7 million over 1966 due to increased investment in depreciable property.

System taxes in 1967 were up by \$5.1 million to \$43.4 million of which \$37.5 million was charged to railway operating expenses. Property taxes increased by \$3.1 million, provincial taxes by \$1.0 million and U.S. railroad retirement tax by \$0.6 million.

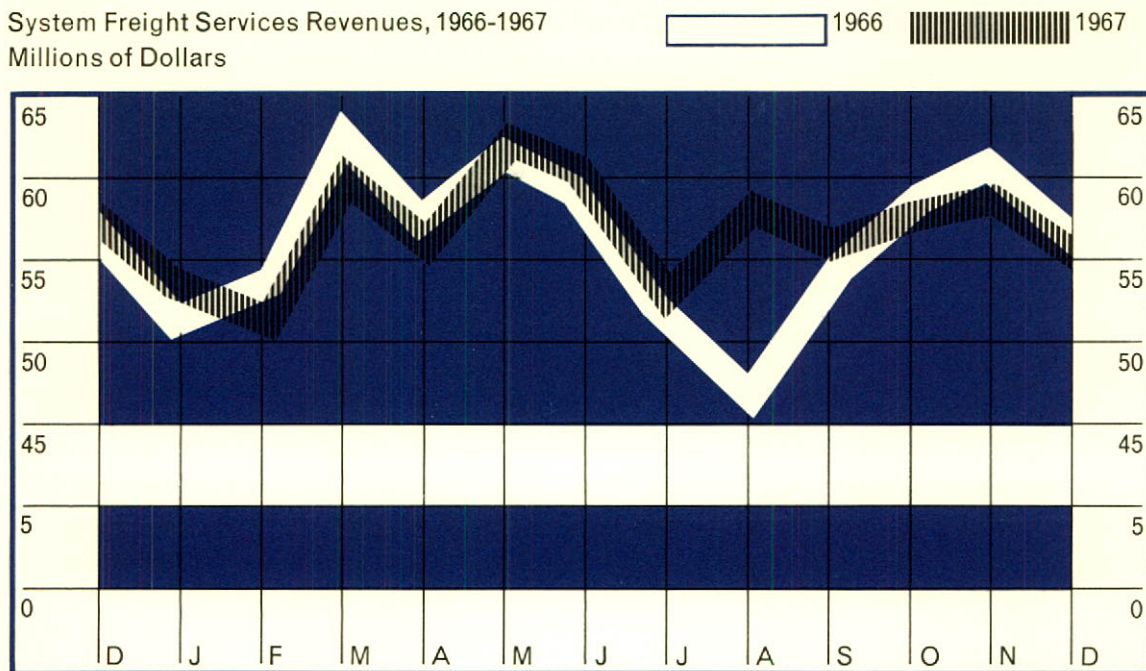
Net interest on debt amounted to \$65.1 million, \$0.4 million more than in 1966. The effective rate of interest on the debt outstanding at December 31, 1967 was 4.73% compared with 4.69% at December 31, 1966.

Freight Services

General

As measured by revenue ton miles the volume of freight moved in 1967 showed a 1.7% decline from the previous year. This represents the first drop in freight volume since 1960 and reflects the sensitivity of railway carloading to fluctuations in the general economy. Most railways in North America were affected by the slowdown in the rate of economic expansion that took place in 1967. Class 1 railroads in the United States have estimated an overall decline of 2.5% in revenue ton miles for the year.

System Freight Services Revenues, 1966-1967
Millions of Dollars



Principal commodities on which decreases in tonnage were recorded are: grain, down 15.7%; iron and steel, down 9.8%; vehicle parts, down 5.3%; and lumber, down 2.2%. Gains were registered in potash, up 28.2%; chemicals, up 15.7%; pulpwood and chips, up 10.7%; gas and fuel oil, up 7.8%.

Emphasis continued to be placed during the year on the service and equipment needs of customers and a strategic marketing plan, through which effective integration of many facets of a modern marketing program is being achieved, was refined and implemented in a number of ways.

Increases in rates on carload traffic carried within Canada under class and normal commodity rates went into effect in May of 1967, except in the territory governed by the Maritime Freight Rates Act. In September, increases went into effect on carload traffic carried in Canada under competitive commodity rates.

Under the new rate structure, long-haul shipments bore a proportionately lower increase than short-haul shipments. In addition, the competitive structure provided for a still lower rate of increase on heavy loadings in order to encourage shippers to use freight equipment to full capacity. This "selective" approach to freight rate adjustments is part of the customer-oriented program which CN has been developing in recent years and which is geared to today's competitive environment and the policies set forth in the new National Transportation Act.

Express

The consolidation of Express and non-carload freight operations into a unified, efficient service continued during the year.

In September Canadian railways put into effect a new schedule of rates providing a single tariff structure for all Express and less-than-carload shipments. The new schedule offered to shippers a much greater range of choice and freedom to select the form of their shipments in relation to the price to be paid. Additionally, it was designed to reflect the cost structure of the transportation and handling operations in such a way as to make all segments of the business compensatory. The principle of a non-carload rate structure based on the cubic content and the number of pieces in a shipment is gaining general acceptance among carriers and shippers and CN is continuing to develop its Express Service accordingly.

A modern Express terminal was officially opened during the year in the Toronto Yard. The package sorting system in the new terminal can handle up to 9,000 pieces an hour, making it one of the most advanced facilities of its kind in North America. The new terminal serves a defined territory and, in order to obtain the advantages of a coordinated road-rail operation, highway services were expanded to provide improved service to the communities served by the centre.

In a further step to improve the Express Service, 200 heated, insulated, aluminum containers were acquired. These containers, specially designed for easy transfer between rail and highway units, brought the total acquisition to 830 such units at the end of 1967. Ancillary flat car equipment and motor vehicles were also acquired to move the containers.

The growth of railway piggyback service has been substantial in recent years, but there was some decline in 1966 due to strikes in the transportation industry. However there were signs of improvement for CN in 1967 with a modest increase in tonnage of 2.5% and in revenues of 4.4% over the previous year.

Containerization

CN is studying closely the development of inter-modal transportation systems based on the use of containers which can be readily transferred between rail, truck and ship. A special task unit to study the coordinated use of containers on a world-wide scale was set up during the year.

The Company is also actively interested in the increased use of containers to move Canadian exports to overseas markets and to distribute imported goods in Canada. In November, new rates and services were inaugurated for the movement of containers carrying export and import shipments through Halifax, Saint John and Montreal, to and from major Eastern Canadian points. Studies designed to establish rates and services from Canadian West Coast ports to major Canadian centres were also begun during the year. In addition, steps were taken towards the establishment of container services for goods moving to and from the United States through Canadian ports.

Trucking Subsidiaries

Net operating profit of the separately operated trucking subsidiaries, whose stock is owned by Canadian National Transportation, Limited, was \$2.0 million in 1967.

With a view to developing further experience in bulk commodity handling, thereby keeping the trucking arm competitive in this market, a separate tanker division was organized in 1967 under The Toronto-Peterborough Transport Company, Limited, an Ontario-based subsidiary. Additionally, Eastern Transport Limited, with headquarters in Nova Scotia operated tankers for the bulk haulage of cement.

Passenger Services

General

The 24.3% increase in passenger services revenues recorded in 1967 was due largely to the high travel demand of Canada's Centennial Year and particularly the demand generated by Expo 67. The provision and effective promotion of new and improved train services in certain areas was also an important factor. Some minor adjustments in passenger fares are also reflected in the year-end figures.

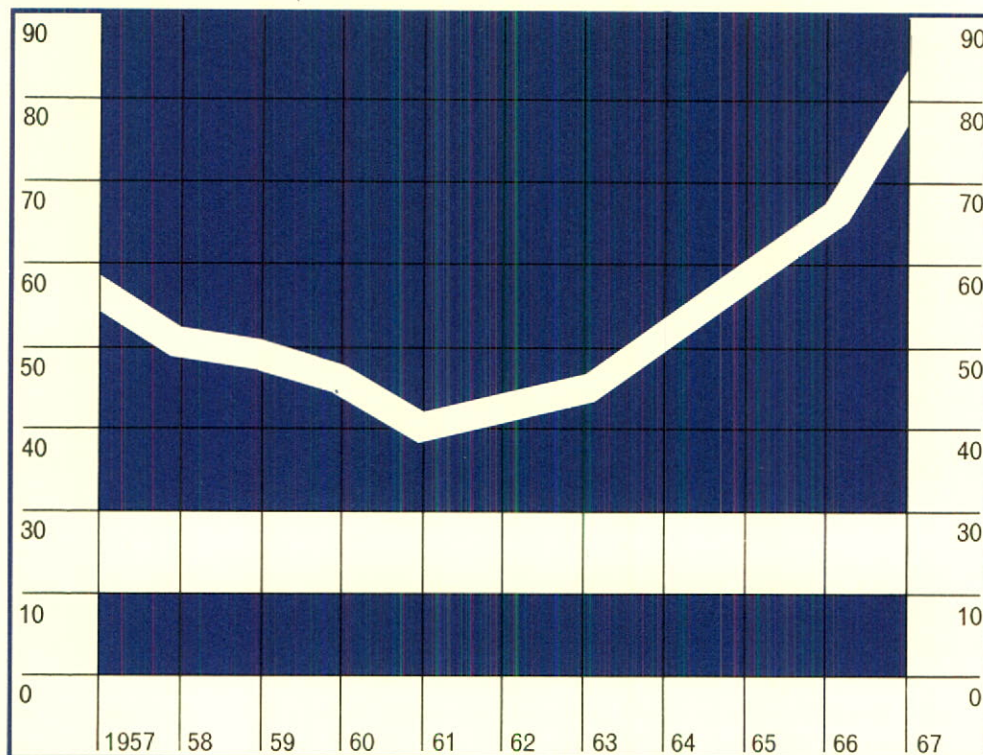
A total of 18.3 million passengers, a gain of 1.5 million over the previous year, was carried in 1967. The average passenger travelled 136 miles; 14.9% further than in 1966. Passenger traffic was the heaviest since 1945 and revenue per train mile reached \$3.81 compared with \$3.20 the previous year.

The chart on page 12 illustrates the sharp increase in passenger revenues in 1967. It illustrates also, that a steady improvement began with the adoption of positive, market-oriented policies in 1960 and that the increase has been dramatic since 1963.

The Company continued to pursue a positive policy of concentrating on the provision of such passenger services as may be required in areas of profit or potential profit. Steps have been taken and will be taken to seek withdrawal from, or obtain public monetary support for, those unprofitable services which do not fit into that pattern; the objective being to eliminate the deficit in passenger operations.

A highlight in the improvement of facilities during the year was the inauguration of a new electronic reservations system which joined 37 Canadian cities and Chicago into a common

System Passenger Services Revenues, 1957-1967
Millions of Dollars



reservations centre. This reservations system was given a very difficult test by the unusual conditions of Centennial Year but the overall performance was considered satisfactory.

During the year "Go Transit", North America's newest and most modern commuter service was inaugurated by the Province of Ontario under an operating agreement with CN. This project represented a good example of cooperation between a railway and government authorities in the use of railway facilities to help solve commuter problems. The 60-mile line from Hamilton to Pickering serves commuters to and from Toronto. Passenger carryings at the end of the year exceeded all preliminary estimates.

Preparations for the inauguration of the new Turbo service between Montreal and Toronto continued during 1967. The Turbos, which represent new concepts in the technology and marketing of passenger transportation, will cover the 335 miles between the two cities in 3 hours and 59 minutes, one hour faster than the present Rapido. Original plans called for delivery of the equipment in 1967, but introduction of the service was rescheduled to 1968 because of unanticipated delays in production and procurement of parts and materials.

Preparations went ahead also for the improvement of services between Toronto, London and Windsor and Sarnia by means of new, lightweight train sets. They will feature coach, club car and modern meal service facilities and are scheduled to go into service in 1968.

Schedules and Services

Changes and developments in schedules and services during 1967 reflected actual and potential market demand as determined by up-to-date research techniques.

Passenger service between Montreal and the Maritime Provinces was improved by the introduction of a new train, the Cabot, between Montreal and Sydney and routed via Edmundston to provide a service for central New Brunswick. The Chaleur, which formerly operated between Montreal and Campbellton, with a connecting railiner service to the Gaspé Coast, was extended through to Gaspé. Railiner service between Campbellton and Charny, connecting with the Rapido between Quebec and Montreal, was introduced during the year.

The Rapido service between Montreal and Quebec was increased and improvements were also made in the service between Toronto and Ottawa.

On the Grand Trunk Western, through afternoon train service was instituted between Detroit and Chicago in October. This service offers the fastest Detroit-Chicago railway schedule now available.

New ideas in railway meal service have been developed by CN which should result in better service for passengers and economies for the Company. One new idea is the concentration of a variety of services—lounge and beverage, take-out and snack, and sit-down meal service—in one car. Six cars providing this kind of service are expected to be available in 1968 and will be assigned initially to the Montreal-Halifax run.

During 1967, an in-depth analysis of the potential available for all transcontinental and Maritime rail passenger services was undertaken. This study is essentially a marketing analysis to provide management with information required to make long-range decisions concerning these train operations.

Personnel and Labour Relations

Labour Negotiations

Negotiations which began late in 1965 and involving a seven-day strike in 1966 followed by an arbitration settlement imposed on the parties, resulted in basic wage increases of 24% over a three-year period for approximately 68,000 employees. These employees were represented by the Associated Non-Operating Unions, the Brotherhood of Railroad Trainmen, the Canadian Brotherhood of Railway, Transport and General Workers, the Federated Shop Craft Employees and the Brotherhood of Locomotive Engineers. Negotiations with the Brotherhood of Locomotive Firemen and Enginemen broke off and matters remaining in dispute were submitted to a board of conciliation early in 1968.

An important clause in the completed contracts reflected the concern felt by management and unions about the impact of technological change upon employees. Changes in technology and methods are necessary and inevitable. But such changes can involve changes in work and jobs and CN believes that a company which is using new technology and new methods must be as concerned with the effect of the change upon employees as it is with gaining the economic advantages involved. The aim of CN is to find a solution to the problems posed by changes of this nature which meets both the needs of the Company and the needs of the employees concerned. Towards this end appropriate clauses in the wage agreements have been worked out with the unions.

During the year, the Company negotiated with the Commercial Telegraphers' Union, the Transportation-Communication Employees' Union and the Brotherhood of Maintenance of Way Employees under this "technological change" clause. Mutually satisfactory settlements were arrived at.

Other collective agreements were reached with marine service, waterfront, highway and hotel employees in Canada and with shop craft employees, locomotive engineers, firemen/helpers, conductors and trainmen on U.S. subsidiaries.

In order to assist employees affected by work force adjustments the Company and the Non-Operating Unions signed an agreement relating to the Job Security Program established in 1964. The agreement increased the benefits to laid-off employees from \$12 to \$25 per week and reduced the years of service required for eligibility from seven to five years. Negotiations to improve the Job Security Program further are continuing.

Employee Relations

Within the Company, efforts by Employment Services to find alternative employment were intensified. Year-end figures show 1,101 job offers and 601 acceptances. These figures represent increases of 26% in job offers and 16% in acceptances over the previous year. Special appraisals and counselling interviews by Employment Services personnel showed increases of 14% and 15% respectively.

A special Voluntary Early Retirement program was approved by the Company's Board of Directors in December. The provisions provided for a retirement allowance to be paid to eligible employees in addition to the early retirement pension and, in certain cases, a dislocation allowance.

The scale of recruiting and language training programs to increase the proportion of bilingual employees, with emphasis in French-speaking territories, was broadened in 1967.

As a Centennial project, summer employment was provided outside the Province of Quebec for French-speaking engineering undergraduates while an equal number of English-speaking students were engaged in summer engineering work in French-speaking areas of Canada.

A CN Centennial Scholarship Plan, financed from the proceeds received by the Company from the sale of Expo passports to employees, was introduced in 1967. These university scholarships are available to dependents of CN employees and pensioners. Ten scholarships of \$600 each were awarded this year and the same number will be available each year until 1976.

There were approximately 62,000 enrolments in various in-Company training programs, including language courses.

Pensions and Welfare

Total charges against earnings for pensions and retirement benefits in 1967 compared with 1966 are as follows:

	1967 (In Millions)	1966	Increase or (Decrease)
CN Pension Plans:			
Contribution to Reserve for Pensions	\$41.3	\$38.6	\$ 2.7
Liquidation of Unfunded Liability	0.7	—	0.7
	42.0	38.6	3.4
Intercolonial and Prince Edward Island Railways Employees' Provident Fund	—	6.8	(6.8)
	42.0	45.4	(3.4)
Government Plans:			
Canada (and Quebec) Pension Plans	6.9	6.6	0.3
U.S. Railroad Retirement	4.2	3.6	0.6
Total	\$53.1	\$55.6	\$(2.5)

Pension costs in 1967 were reduced by \$6.8 million as a result of the assumption by the Government of the deficit of the Intercolonial and Prince Edward Island Railways Employees' Provident Fund. Included in the costs for 1967 is an amount for amortization of \$0.7 million of the unfunded liability in respect of prior service resulting from the introduction of the Pension Benefits Standards Act effective October 1, 1967. Under this Act, the unfunded liability is to be liquidated within 60 years.

Exclusive of payments made under the U.S. Railroad Retirement Act, there was paid to pensioners and beneficiaries under the various Canadian National pension arrangements, a total of \$48.2 million in 1967 and 32,828 individuals were receiving such payments at the end of the year. Charges against earnings for welfare plans providing hospital-surgical-medical benefits and life insurance were \$8.0 million in 1967 compared with \$7.8 million in 1966.

System Activities

Centennial Year

As a nation-wide enterprise providing transportation and allied services, CN played a significant role in Canada's centennial celebrations. One important contribution was the provision of efficient passenger transportation to and from various centennial events, particularly Expo 67 in Montreal. Men and women throughout the System put forth extra effort in carrying out this particular task and in meeting other extraordinary demands which Centennial Year imposed on the various departments and services of the Company.

The Company's major single project was the "Time and Motion" pavilion at Expo 67. This pavilion featured a 70mm wide-screen film, "Motion", and an animated exhibit area where various aspects of "Time" and its effects were illustrated.

The pavilion proved very popular. It operated to capacity throughout Expo 67, received favourable comment in the press and other media and was seen by more than 1,350,000 visitors. With the closing of Expo 67 the pavilion was given to the City of Montreal to become part of "Man and His World".

CN personnel worked closely with the Centennial Commission, government officials at various levels, and the Canadian Pacific Railway in connection with the very successful Confederation Train project. The train was open to visitors on more than 315 days at 83 different locations in 63 important Canadian communities. A total of 2,760,316 people saw the exhibits.

Officers and employees also worked closely with the Department of National Defence and the CPR on transporting and providing lodging and food service for nearly 700 officers and other ranks who took part in the Military Tattoo which played to large audiences in various parts of Canada. To transport the Military Tattoo personnel and equipment required two trains of 26 cars. The train equipment included dining, sleeping and lounge facilities as well as six piggy-back flat cars carrying insulated trailers.

The provision of transportation and other services during the formal visits of heads of state was another activity of Centennial Year. There were 59 visits of state during the year and the Company was involved with transportation and catering for most of them. It was the objective of the Canadian government to make the state visits interesting and entertaining for the distinguished visitors and CN contributed to this objective.

Telecommunications

CN's Telecommunications Department expanded its services and increased its earnings during 1967. Operations for the year resulted in a profit of \$7.3 million, an improvement of \$1.2 million over 1966.

Canada entered a new communications era on November 7th with the introduction of CN-CP's Broadband Exchange Service. Broadband is a high-speed data transmission system geared to the computer age and with the potential to transmit data at a speed of 51,000 words per minute. At present the service is transmitting information machine-to-machine at 3,000 words per minute—three times faster than conventional switched networks now in operation. The further potential of the system will be used to satisfy customer demand as it develops.

The first system of its kind in Canada and the second in the world, Broadband can transmit in many modes, including magnetic tape, paper tape, punched cards, facsimile and high speed teleprinter.

During the year, a proposal for a domestic multi-purpose communications satellite system was made to the government of Canada by the Trans-Canada Telephone System and CN-CP Telecommunications.

Data Central in Toronto, the only computer message switching system in Canada, averaged two million messages a month, an increase of 100% over 1966. The Company's passenger reservations system was added to this unique switching system during the year.

Carrier telephone and telegraph channel miles increased 15% in 1967 while Telex, CN-CP's "dial'n type" service, is now provided in 1,038 communities across Canada with service to 14,164 subscribers—a gain of 19%.

In Newfoundland, the continuing public demand for telephone service resulted in 47 new communities added to the network. In all, 12 new exchanges were completed, seven exchanges were enlarged and 2,800 new telephone customers added during the year.

In the Yukon and Northwest Territories, new telephone exchanges have been opened or old exchanges expanded at Clinton Creek, Ross River, Dease Lake, Enterprise, Yellowknife and Inuvik, resulting in a net gain of 15% in new customers.

A new 300-channel microwave system was put into service between Corner Brook and St. Anthony in Newfoundland. This system is providing a major path for the development of telecommunications in the northern part of the province and for telephone, commercial messages, and military and government communications to Labrador. The Port aux Basques—St. John's microwave facilities were upgraded during the year to carry colour television programs for the CBC and CTV.

A very high frequency radio network was established by CN-CP Telecommunications for the Department of Transport for use in marine traffic control. It consists of six base stations along the St. Lawrence River with the control centre at Quebec City.

Hotels

The following table, showing the financial results of CN hotels, illustrates the success and importance of this phase of CN operations:

	1967	1966
CN-operated hotels:		
Net income before undernoted charges	\$1,049,874	\$ 759,106
Major repairs and modernization costs	198,268	372,623
Net income	851,606	386,483
Hilton-operated hotels:		
Net (loss) from Hotel Vancouver	(186,612)	(180,214)
Net return from Queen Elizabeth Hotel (including Place Ville Marie restaurants)	2,752,635	2,135,903
Net return	2,566,023	1,955,689
Net hotel income	\$3,417,629	\$2,342,172

During the year, CN-operated hotels completed all major projects planned for in the five-year modernization program begun in 1963. In addition, all hotels carried out normal replacements and additions to furnishings and equipment. A total of \$0.9 million was invested in modernization and improvement projects during the year.

The complete modernization of the Hilton-operated Hotel Vancouver continued. Work on this project during 1967 represented an investment of \$2.5 million. The program is scheduled for completion in the fall of 1968.

A new restaurant and bar lounge were opened in the Place Ville Marie complex in Montreal. These facilities, as is the case with all food and beverage outlets in Place Ville Marie, were operated for CN by the Queen Elizabeth Hotel.

Transportation and Maintenance

Activities in the Transportation and Maintenance Department were geared to technological advance and new operating methods.

For some time, the Company has been a leader in the application of data processing equipment and computers to the management of yard and train operations and to the improved utilization of freight cars. In 1967, another advanced application of computer equipment was begun with the development of a comprehensive Reporting and Control System for Traffic, intended to provide much more timely and complete information for effective management. It is expected that the full development of this information system will take from three to five years.

CN is joining other North American railways in a program called Automatic Car Identification (ACI) which will use computer-connected electronic scanning equipment to improve greatly the speed and accuracy with which freight cars can be identified and located. The Company is evaluating the potential of this reporting system for local monitoring of car movements and as an input device for the Reporting and Control System for Traffic.

Delivery was taken of 35 new high-powered diesel units ordered previously and the first 12 units of a new order for 110, the balance of which will be delivered in 1968. These new 2400 and 3000 hp diesels will make possible significant improvements in the quality of the Company's transportation service.

During 1967, the Company also accepted delivery of 150 steel cabooses built to new specifications which resulted from a joint study by the Company and the union representing the employees who will use the cabooses. Equipped with electricity and many other innovations, the cabooses have been assigned to selected train services across the System. They remain with these trains instead of being changed off at successive crew terminals, thus eliminating delays to the train and also making excellent caboose accommodation available to the maximum number of train crews.

In Vancouver, work continued on bridge and yard projects and other major terminal changes, including a new tunnel which will be finished in late 1968. These improvements have been undertaken to give CN better access to the North Shore which has good potential for growth in port facilities.

A number of improvements were made to the Montreal-Toronto line during 1967 as part of the overall program to handle growing traffic which is expected in the Montreal-Toronto service.

An operations control centre, the first of its kind on the System, was set up at Moncton to provide complete information and control over trains, cars, power, vans, crews, car service, car distribution and car tracing at one central point in the Maritime Area. The new centre, in which improved telecommunications play an important part, contributes to the efficiency of operations throughout the Maritime Area.

Research and Development

During 1967, Research and Development activities continued to make significant contributions to CN's progress and to transportation in general.

In October, CN was host to the Second International Symposium on Cybernetics in the Railways. This was an important international conference attended by more than two hundred senior officials of the world's major railways. Forty technical papers on cybernetics, automatic control of trains, computers and railway research were discussed. Selection as host to the gathering reflects the progress of the Company in this field. This progress was also reflected in the presentation of a number of technical papers by Company personnel.

CN has an active technical research program which is of great practical importance in the provision of new and improved services to many customers. It was announced during the year that research on better means of insulating freight cars has resulted in the development of a super-insulated freight car that is cheaper to build than conventional cars and can maintain controlled temperatures, including deep freeze, with substantially less fuel.

During the year, patents were applied for on two types of electronic speedometers, a diesel engine temperature controller and a volume-measuring device for Express purposes. Licences to manufacture these items were granted to Canadian firms in return for licensing fees and royalties.

The Technical Research Branch also qualified for a government grant given by the Department of Industry for research and development.

The past year also saw significant advances in the field of development planning, customer research, industrial engineering and loss and damage prevention.

Industrial Development

Through its Industrial Development and Location Service the Company continued to promote and assist in the establishment of new resource, industrial and commercial development along its lines. In addition, increased attention was given to land use planning by assisting private and public interests in the promotion and planning of industrial areas.

During 1967, 408 resource developments, manufacturing plants, and warehousing and distributing facilities were established in locations served by CN. In addition, 165 industries already served expanded their facilities. A total of 113 miles of private sidings and industrial spurs was constructed during 1967 to serve these new plants and expansions.

Branch Lines

Construction approached completion on five branch lines, totalling approximately 118 miles. These are: a 68-mile Bruce Lake line serving the Griffith iron mine in the Red Lake area of Ontario; a 12-mile Stall-Osborne extension to a copper-zinc mine at Osborne Lake, Man.; an 18-mile line northeast of Watrous, Sask., to a potash plant site near Guernsey; an 8-mile line to a pulp mill at Prince Albert, Sask.; and a 12-mile line from the vicinity of Fort Saskatchewan, Alta., extending in an easterly direction to the site of a planned fertilizer complex near Redwater. During the year, the Company constructed 115 miles of line for the Alberta Resources Railway which connects with the Company's main line about 200 miles west of Edmonton and will extend 233 miles northerly to Grande Prairie on the Northern Alberta Railways. Grading and construction of bridges was continued on the portion of line remaining to be built. The railway is being financed by the Province of Alberta and will be operated by CN under a lease arrangement.

Real Estate

The planned development of Company-owned real estate, in conjunction with private developers, continued to be a major interest.

In Montreal, Place Bonaventure, a great exhibition, shopping and hotel complex, built by Concordia Estates Limited over the mainline tracks south of Central Station, opened early in 1967. In early December, the opening of a 200-foot tunnel between Place Bonaventure and the Headquarters Building linked together the main elements of what has been called Montreal's underground city. This underground city, most of which is built on CN property, consists of three miles of shop-lined passageways, providing indoor access to 2,200 hotel rooms, 36 restaurants, four cinemas, 4,000 parking spaces, two railway stations, 10 office buildings and a Montreal Metro Station.

In Moncton, work started late in the year on a department store, the first stage in a development which will include, when completed, a large food store and enclosed shopping mall with numerous commercial and service outlets. In addition, construction of a seven-storey office building began in January 1968.

In Saskatoon, the Midtown Plaza development, a shopping centre consisting of two department stores, specialty shops and a 12-storey office building is being built on the former City Yard by Crescent Leaseholds Ltd.

In Vancouver, the 500-car parking garage, topped by a 14-storey office building which is being built behind the Hotel Vancouver by Avord Holdings Ltd., is expected to be in operation by mid-1968.

In Toronto, a joint study with the CPR is under way to prepare a master development plan for land owned by the two companies in the vicinity of Toronto's Union Station.

In Campbellton, plans were announced for construction of a new office building, including Chaleur area headquarters and a new railway station, and a shopping centre on a three-and-a-quarter acre CN-owned site. The developers are Restigouche Centre Ltd., and work is expected to begin early in 1968.

Marine Services

Two new ships to be operated for the Department of Transport in the Newfoundland ferry service were launched during 1967. The M. V. Ambrose Shea, will be used to inaugurate a ferry service between North Sydney, N.S. and Argentia, Nfld. in the summer of 1968. The M. V. Frederick Carter, will be used in a new service carrying mainland standard-gauge freight cars from North Sydney, N.S. to new terminal facilities at Port aux Basques, Nfld.

The S. S. Patrick Morris went to drydock in December to be converted to carry railway freight cars and should be joining the M. V. Frederick Carter in this operation by mid-1968.

The Newfoundland ferry service was maintained by the M. V. William Carson, M. V. Leif Eiriks-son and the S. S. Patrick Morris during the year. Altogether 167,468 passengers and 51,306 vehicles were transported across Cabot Strait, an increase of approximately 4%. Freight traffic also increased—by about 7%—as Newfoundland's economy continued to expand.

The Northumberland Strait service, between Cape Tormentine, N.B. and Borden, P.E.I., again showed an increase in traffic. There were 726,735 passengers and 296,858 vehicles handled by the four ships used in this operation. A new ship for this service, the M. V. John Hamilton Gray, is expected to be received from the Department of Transport in 1968.

During 1967, a total of 326 ships were repaired at the CN dockyard in St. John's, 73 in drydock and the remainder alongside. A new pilot boat 53 feet long was completed for the Department of Transport pilot service branch, the first ship to be built there for non-Company use in many years.

A decline in traffic was recorded on the M. V. Bluenose operating between Yarmouth, N.S. and Bar Harbor, Maine.

On the Pacific Coast, the S.S. Prince George carried a record 5,624 passengers and sailed with an average of 97.8% capacity on its 21 cruises from Vancouver to Skagway, Alaska.

The Aquatrain, which operates between Prince Rupert, B.C. and Whittier, Alaska, maintained a weekly schedule throughout the year.

Commentary

For Canadian National, as for Canada as a whole, 1967 was a year of pride in past and current achievement and of strengthened confidence in the future.

Historically CN has played an important role in the formation and development of the Canadian nation. In this tradition, the Company was proud to be able to make measurable contribution to the success of Centennial Year. Meeting the extra demand for passenger transportation, hotel accommodation and telecommunications services was perhaps that part of the contribution most noticeable to the general public. However, CN is a nation-wide enterprise offering a variety of services in the broad field of transportation and communications; consequently CN people in almost every service and department were involved in various events of the historic year.

While sharing in the achievements of Centennial Year, CN also made significant progress in the use of advanced technology and modern production and marketing methods to provide and sell first-class services.

Management is well aware of the economies, efficiencies and service improvements that can be obtained from the effective use of 20th century technology and aware also of the demands and opportunities of a rapidly changing and increasingly competitive market. The appointment during the year of a Vice-President, Marketing, and a Vice-President, Production, reflects this awareness. Marketing and Production are looked upon as a continuous spectrum ranging from such essentially marketing concerns as a particular market analysis to essentially production matters, such as the handling of grain. Towards the middle of this spectrum is a range of circumstances which require that marketing and production activities should blend and interact so as to produce those combinations of service and price that will maximize financial returns and market penetration. The appointments are expected to facilitate this blending process and improve the total performance of the Company.

The advances made in technology, production and marketing are part of CN's overall program of adapting to a new era in transportation. This new era is being brought about by technological advance and the increasing complexity and interdependence of modern life. It is necessary today to think about transportation, and plan for its orderly development, in terms of a national transportation system which will make the best use of all available modes of transportation at the lowest cost. In Canada this necessity has been recognized by the passage during 1967 of the new National Transportation Act and the subsequent setting up of the new Canadian Transportation Commission.

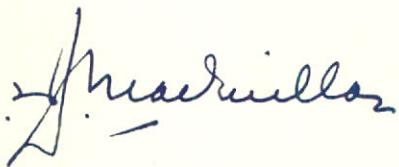
These actions have been generally welcomed by the Canadian transportation industry. The new legislation by no means solves all the problems of transportation in Canada. But it does seem to provide a framework for the development of a national transportation system within which each form of transportation will be able to perform that part of the transportation task for

which it is best fitted and all forms of transportation will be able to push ahead with technological and other changes suited to the times.

During 1967 Canadian railways began to feel the effect of the slowdown in economic expansion that can now be traced to its beginning about mid-1966. For CN this has meant a set-back in the steady improvement of the overall financial situation that has taken place since 1960.

Management, however, has every confidence that this trend can be reversed. It has been the objective in recent years to shape a dynamic, modern business enterprise capable of becoming a self-supporting part of an efficient national transportation system. Management believes that the Company today answers to this description and looks to the immediate future with confidence that a favourable economic and legislative climate will enable CN to continue its long tradition of service to Canada.

The Board of Directors again wishes to express its appreciation to all officers and employees for their contribution to the achievements of the Company in 1967.

A handwritten signature in blue ink, appearing to read "J. Macmillan". The signature is stylized with a large initial "J" and a long horizontal stroke.

Signed on behalf of the Board of Directors

Montreal, March 15, 1968

Executive and General Officers

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

Accounting and Finance

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

Freight Sales

G. R. Johnston, Vice-President

Highway Services

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

Hotels and Telecommunications

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

Investment Division

J. L. Toole, Chairman of the Division (a Vice-President of CN)
P. H. Davies, General Manager

Law

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

Marketing

A. H. Hart, Vice-President

Passenger Sales and Services

G. C. Campbell, General Manager

Personnel and Labour Relations

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

Production

J. A. McDonald, Vice-President

Purchases and Stores

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

Research and Development

Maurice Archer, Vice-President
W. H. Bailey, Assistant Vice-President
Paul Blanchet, Assistant Vice-President and General Manager of Real Estate

Transportation and Maintenance

J. H. Spicer, Assistant Vice-President

Atlantic Region

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

St. Lawrence Region

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

Great Lakes Region

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

Prairie Region

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

Mountain Region

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

Grand Trunk Western Railroad

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

European Organization

W. G. Buchanan, General Manager, London, England

*May 1, 1968, Transferred to System Headquarters.

**Effective May 1, 1968.

Companies Included in the Canadian National System

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

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

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Consolidated Balance Sheet at December 31, 1967

Assets

Current Assets	Cash	\$ 17,195,775	
	Accounts receivable	102,952,876	
	Material and supplies	81,022,314	
	Other current assets	42,174,953	
	Government of Canada—Due on deficit account	12,869,197	\$ 256,215,115
			<hr/>
Insurance Fund			12,542,203
<hr/>			
Investments in Affiliated Companies not Consolidated	Air Canada	307,819,500	
	Jointly operated rail and terminal facilities	47,711,044	355,530,544
<hr/>			
Property Investment	Road	2,707,499,606	
	Equipment	1,502,937,763	
	Other physical properties	149,189,745	
		<hr/>	
		4,359,627,114	
	Less recorded depreciation	1,072,943,987	3,286,683,127
<hr/>			
Other Assets and Deferred Charges	Other investments	3,929,322	
	Prepayments	2,069,359	
	Unamortized discount on long term debt	13,331,422	
	Other assets	7,094,011	
	Deferred charges	13,905,624	40,329,738
			<hr/>
			\$3,951,300,727
			<hr/>

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, 1967 and the consolidated statements of income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to depreciation not recorded in earlier years as referred to in Note 1, these consolidated financial statements are properly drawn up so as to give a true and fair view of the state of affairs of the System as at December 31, 1967 and the results of its operations and the source and application of its funds 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.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

February 28, 1968

Consolidated Balance Sheet at December 31, 1967

Liabilities

Current Liabilities	Accounts payable	\$ 84,860,826	
	Accrued charges	55,414,096	
	Other current liabilities	19,171,048	\$ 159,445,970
Provision for Insurance			12,542,203
Other Liabilities and Deferred Credits			41,527,316
Long Term Debt	Bonds	1,198,718,264	
	Government of Canada loans and debentures	645,994,421	1,844,712,685

Shareholders' Equity

Government of Canada	6,000,000 shares of		
	no par value capital stock of Canadian National Railway Company	359,963,017	
	1,100,369,924 shares of		
	4% preferred stock of Canadian National Railway Company	1,100,369,924	
	Capital investment of		
	Government of Canada in the Canadian Government Railways	428,394,427	
		1,888,727,368	
Capital Stock of Subsidiary Companies			
Owned by Public		4,345,185	1,893,072,553
			\$3,951,300,727

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

W. R. Corner,
Comptroller.

Notes to Consolidated Financial Statements at December 31, 1967

Note 1: Property Investment

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprised in the System to the extent that these have not been retired or replaced. Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1967. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, or for extraordinary obsolescence resulting from the introduction of more efficient equipment. Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other property except land have been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2: Material and Supplies

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

Note 3: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four percent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 4: Pension Funds

As at October 1, 1967 the unfunded liability under the Company's Pension Plans was actuarially estimated to be \$675,000,000. Previously the Company had made payments to the Pension Trust Fund in respect of interest on this unfunded liability. The Company is now liquidating this unfunded liability over a period of sixty years from October 1, 1967 by making annual payments of both principal and interest to the Pension Trust Fund as required by the Pension Benefits Standards Act. These payments have been charged to System expenses and the amount of the unfunded liability has been reduced to \$674,291,000 at December 31, 1967.

Note 5: Major Commitments

(a) Chicago & Western Indiana Railroad Company:

The Grand Trunk Western Railroad Company is liable jointly and severally with four other proprietors as guarantor of principal and interest with respect to \$9,243,000 First Collateral Trust Mortgage 4% Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company. In addition, the proprietors are obligated to make semi-annual sinking fund payments sufficient to retire the bonds at maturity and to meet interest as it falls due; in the absence of default of any of the other proprietors, Grand Trunk Western's proportion of such semi-annual payments is one-fifth.

(b) The Belt Railway Company of Chicago:

The Grand Trunk Western Railroad Company is liable jointly and severally with eleven other proprietors as guarantor of principal, interest and sinking fund payments with respect to \$33,525,000 First Mortgage 4% Sinking Fund Bonds series "A", due August 15, 1987 of the Belt Railway Company of Chicago. Each proprietor is to make payments to the extent required in proportion to its usage of the Belt's facilities in the preceding three years. For the three years ended December 31, 1967 Grand Trunk Western Railroad's usage was approximately 3.3% of the total.

(c) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable with one other proprietor as guarantor of principal, interest and sinking fund payments with respect to \$2,508,000 First Mortgage 3½% 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

Consolidated Income Statement

	1967	1966
Railway Operating Revenues		
Freight services	\$ 695,320,574	\$ 684,679,032
Passenger services	83,885,978	67,481,256
Mail	13,235,730	12,259,314
Express	55,331,062	48,964,262
Other	34,359,524	30,997,580
Payments related to National Transportation Act*	63,079,801	61,761,027
Total Railway Operating Revenues	945,212,669	906,142,471
Railway Operating Expenses		
Road maintenance	161,630,441	154,512,652
Equipment maintenance	193,393,212	179,119,527
Transportation	407,756,047	380,751,513
Sales	23,330,269	22,257,815
Miscellaneous operations	17,963,282	13,901,016
General	80,343,568	79,753,868
Taxes	37,509,752	33,240,555
Equipment and joint facility rents	20,517,040	18,337,181
Total Railway Operating Expenses	942,443,611	881,874,127
Net Railway Operating Income	2,769,058	24,268,344
Other Income		
Net income from:		
Telecommunications department	7,311,635	6,062,728
Hotels	3,417,629	2,342,172
Separately operated trucking companies	1,982,243	1,378,350
Other sources	13,702,406	6,057,553
Total Other Income	26,413,913	15,840,803
Net Income before Interest on Debt	29,182,971	40,109,147
Interest Charges		
Total interest on debt	78,909,630	76,281,945
Less interest received on loans to Air Canada	13,857,462	11,579,581
Net Interest on Debt	65,052,168	64,702,364
Deficit	\$ 35,869,197	\$ 24,593,217

*The corresponding figure for 1966 is a grouping of \$29,196,152 for Interim Payments—Royal Commission on Transportation—and \$32,564,875 formerly classified as Freight services revenues in respect of the Freight Rates Reduction Subsidy, East-West Bridge Subsidy, At-and-East Grain Rates Subsidy and the Payment for reduced freight rates and 1964 wage awards.

Source and Application of Funds for the Year 1967

	Working Capital January 1, 1967	\$113,744,482
Source of Funds	Provision for depreciation	\$111,160,734
	Increase in long-term debt	71,872,659
	Issue of 4% preferred stock	30,361,558
	Government of Canada in respect of deficit for the year	35,869,197
	Retained proceeds from properties retired	11,929,063
	Other (net)	3,726,828
	\$264,920,039	
Application of Funds	Additions to property investment	\$179,026,179
	Deficit for the year	35,869,197
	Advances to Air Canada	67,000,000
	\$281,895,376	
	Net Decrease in Working Capital	16,975,337
	Working Capital December 31, 1967	\$ 96,769,145

Investments in Jointly Operated Rail and Terminal Facilities

		Percentage Held	Investment at Dec. 31, 1966	Transactions Year 1967 Increase or (Decrease)	Investment at Dec. 31, 1967
The Belt Railway Company of Chicago	Capital Stock	8.33	\$ 240,000		\$ 240,000
	Advances		47,680	\$ 3,222	50,902
Chicago & Western Indiana Railroad Company	Capital Stock	20	1,000,000		1,000,000
	Advances		7,082,477	27,872	7,110,349
The Detroit & Toledo Shore Line Railroad Company	Capital Stock	50	1,500,000		1,500,000
	Advances				
Detroit Terminal Railroad Company	Capital Stock	50	1,000,000		1,000,000
	Advances				
Northern Alberta Railways Company	Capital Stock	50	8,640,000		8,640,000
	Bonds		16,700,000		16,700,000
The Public Markets, Limited	Capital Stock	50	575,000		575,000
	Advances				
Railway Express Agency, Inc.	Capital Stock	0.6	600		600
	Advances		173,493		173,493
The Shawinigan Falls Terminal Railway Company	Capital Stock	50	62,500		62,500
	Advances				
The Toronto Terminals Railway Company	Capital Stock	50	250,000		250,000
	Bonds		10,413,700	(205,500)	10,208,200
	Advances		200,000		200,000
Total			\$47,885,450	\$ (174,406)	\$47,711,044

Property Investment Statement

Property Investment at December 31, 1966		\$4,259,968,725	
Capital Expenditures in 1967			
New lines and diversions	\$ 814,204		
Roadway improvements	27,316,411		
Large terminals	13,661,788		
Yard tracks and sidings	8,297,732		
Buildings	6,905,309		
Highway crossing protection	670,398		
Signals	3,241,385		
Roadway and shop machinery	3,646,433		
Other facilities	4,122,546		
Total—Road property	68,676,206		
Branch lines	10,870,180		
Equipment	81,567,467		
Telecommunications	13,771,111		
Hotels	4,141,215	\$179,026,179	
Deduction in respect of property retirements in 1967			
	66,306,925		
Return of Canadian Government Railways entrusted property to Government of Canada	13,060,865	79,367,790	99,658,389
Property Investment at December 31, 1967		\$4,359,627,114	

Recorded Depreciation Statement

Recorded Depreciation at December 31, 1966			\$1,016,161,115
<hr/>			
Add provision for depreciation for the year			
Road property	\$ 55,836,002		
Equipment	49,821,250		
Other physical properties	5,503,482	\$111,160,734	
<hr/>			
Deduct net charges in respect of property retirements		54,377,862	56,782,872
<hr/>			
Recorded Depreciation at December 31, 1967			\$1,072,943,987

Long Term Debt

	Rate %	Maturity (See Notes)		Currency in which payable	Outstanding at Dec. 31, 1966	Transactions Year 1967 Increase or (Decrease)	Outstanding at Dec. 31, 1967
Bonds	2¾	Jan. 2, 1967 a	Canadian National 20 Year Bonds	Canadian	\$ 50,000,000	\$ (50,000,000)	—
	4½	Apr. 1, 1967 a	Canadian National 6½ Year Bonds	Canadian	72,300,000	(72,300,000)	—
	5	May 15, 1968 e	Canadian National 9 Year Bonds	Canadian	55,800,000		\$ 55,800,000
	2¾	Sept. 15, 1969 b	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
	2¾	Jan. 16, 1971 b	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
	5½	Dec. 15, 1971 e	Canadian National 12 Year Bonds	Canadian	190,561,500	(2,878,000)	187,683,500
	3¾	Feb. 1, 1974 c	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
	2¾	June 15, 1975 d	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
	5	May 15, 1977 e	Canadian National 18 Year Bonds	Canadian	83,925,000	(450,000)	83,475,000
	4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
	5¾	Jan. 1, 1985 e	Canadian National 25 Year Bonds	Canadian	98,500,000	(1,275,000)	97,225,000
	5	Oct. 1, 1987 e	Canadian National 27 Year Bonds	Canadian	158,375,000	(1,864,000)	156,511,000
	5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds	Sterling	795,366		795,366
	5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds	Sterling	1,228,398		1,228,398
			Total Bonds		1,327,485,264	(128,767,000)	1,198,718,264
Government of Canada Loans and Debentures			Capital Revision Act: Jan. 1, 1972 Debenture	Canadian	100,000,000		100,000,000
			Canadian Government Railways: Advances for Working Capital	Canadian	16,983,762		16,983,762
			Financing and Guarantee Acts: Loans	Canadian	55,371,000	78,339,659	133,710,659
			Refunding Act, 1955: Loans for Debt Redemption	Canadian	273,000,000	122,300,000	395,300,000
			Total Government of Canada Loans and Debentures		445,354,762	200,639,659	645,994,421
			Total Long Term Debt		\$1,772,840,026	\$ 71,872,659	\$1,844,712,685

Notes: **a** Refinanced under
Refunding Act, 1955
b Callable at par

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

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

Shareholders' Equity

Government of Canada	No par value capital stock of Canadian National Railway Company	\$ 359,963,017		\$ 359,963,017
	4% Preferred stock of Canadian National Railway Company	1,070,008,366	\$ 30,361,558	1,100,369,924
	Capital investment in Canadian Government Railways	441,455,292	(13,060,865)	428,394,427
	Total Government of Canada	1,871,426,675	17,300,693	1,888,727,368
Capital Stock of Subsidiary Companies Owned by Public		4,345,185		4,345,185
	Total Shareholders' Equity	\$1,875,771,860	\$ 17,300,693	\$1,893,072,553

Inventory of Railway Equipment

		On Hand Dec. 31, 1967
Motive Power Equipment	Diesel electric units	2,026
	Electric locomotives	18
	Steam generator units	106
	Booster units	15
	Total	2,165
Freight Equipment	Box, flat and stock cars	72,914
	Refrigerator cars	4,951
	Gondola and hopper cars	25,952
	Caboose and other cars	2,928
	Total	106,745
Passenger Equipment	Coach cars	611
	Sleeping, dining and parlour cars	612
	Baggage, mail and express cars	1,143
	Other cars in passenger service	125
	Total	2,491
Work Equipment	Units in work service	8,461
Floating Equipment	Car ferries	6
	Barges and tugs	7
	Total	13

Operated Mileage at December 31, 1967

		Owned	Leased	Trackage Rights	Total
Operated Road Mileage— first main track	Atlantic Region	3,744	1	81	3,826
	St. Lawrence Region (including New England Lines)	3,768	7	6	3,781
	Great Lakes Region	3,314		16	3,330
	Prairie Region (including Duluth, Winnipeg and Pacific)	8,060		5	8,065
	Mountain Region	4,065	35	76	4,176
	Grand Trunk Western Lines	878	10	58	946
	Central Vermont Lines	308		59	367
	Total	24,137	53	301	24,491
	Lines in Canada	22,545	36	182	22,763
	Lines in United States	1,592	17	119	1,728
Operated Mileage—all tracks	First main track	24,137	53	301	24,491
	All other main tracks	1,191		82	1,273
	Spurs, sidings and yard tracks	7,401	11	1,788	9,200
	Total All Tracks	32,729	64	2,171	34,964

Statistics of Rail-Line Operations

		1967	1966	% Increase or (Decrease)
Freight Traffic	Freight revenue	\$ 678,099,947	667,886,805*	1.5
	Tons carried—Revenue freight	100,201,935	102,584,458	(2.3)
	Ton miles—Revenue freight	48,781,108,968	49,642,587,020	(1.7)
	Train hours in freight road service	1,631,489	1,699,976	(4.0)
	Averages per Mile of Road:			
	Freight revenue	\$ 27,665	27,213*	1.7
	Train miles	1,530	1,585	(3.5)
	Total freight train car miles	88,287	90,447	(2.4)
	Ton miles—Revenue freight	1,990,195	2,022,699	(1.6)
	Ton miles—All freight	2,038,309	2,062,752	(1.2)
	Averages per Loaded Car Mile:			
	Freight revenue	\$ 52.8	49.9*	5.8
	Ton miles—All freight	38.9	37.9	2.6
	Miscellaneous Averages:			
	Revenue per ton	\$ 6.77	6.51*	4.0
	Revenue per ton mile	\$ 1.390	1.345*	3.3
	Miles hauled per revenue ton	492.2	483.9	1.7
	Cars per train—loaded	33.1	33.6	(1.5)
	Cars per train—empty	22.2	21.6	2.8
	Gross load—Freight trains (tons)	2,732	2,695	1.4
	Net load—Freight trains (tons)	1,299	1,279	1.6
	Gross ton miles per freight train hour	62,791	61,683	1.8
	Train speed—Miles per hour	23.0	22.9	0.4
	Diesel unit miles per serviceable day (excluding stored)	262	261	0.4
Passenger Traffic	Passenger services revenue	\$ 83,885,978	67,481,256	24.3
	Revenue passengers carried	18,349,159	16,843,639	8.9
	Revenue passenger miles	2,494,609,947	1,995,014,453	25.0
	Averages per Mile of Road:			
	Passenger services revenue	\$ 3,422	2,750	24.4
	Train miles	898	859	4.5
	Total passenger train car miles	9,456	8,797	7.5
	Revenue passenger miles	101,776	81,287	25.2
	Averages per Car Mile—Passenger Services:			
	Passenger services revenue	\$ 54.6	50.3	8.5
	Revenue passenger miles	16.2	14.9	8.7
	Miscellaneous Averages—Passenger Services:			
	Revenue per passenger	\$ 4.75	4.01	18.5
	Revenue per passenger mile	\$ 3.363	3.382	(0.6)
	Average passenger journey (miles)	136.0	118.4	14.9
	Percent on time arrival—selected principal trains	68.0	68.9	(1.3)
	Diesel unit miles per serviceable day (excluding stored)	501	479	4.6
Average Miles of Road Operated		24,510.72	24,542.74	(0.1)

*Restated

Statistics of Rail-Line Operations (continued)

		1967	1966	% Increase or (Decrease)	
Train Miles	Freight service	37,501,142	38,903,151	(3.6)	
	Passenger service	22,009,863	21,071,676	4.5	
	Work service	1,448,289	1,476,441	(1.9)	
	Total Train Miles	60,959,294	61,451,268	(0.8)	
Locomotive Miles	Freight service	37,832,788	39,255,523	(3.6)	
	Passenger service	19,334,210	18,477,293	4.6	
	Switching service—Road and yard	18,671,578	19,141,739	(2.5)	
	Work service	1,670,024	1,706,483	(2.1)	
	Total Locomotive Miles	77,508,600	78,581,038	(1.4)	
Car Miles	Freight:				
	Loaded	1,283,960,926	1,337,246,447	(4.0)	
	Empty	839,157,009	841,349,486	(0.3)	
	Caboose	40,862,204	41,210,198	(0.8)	
		2,163,980,139	2,219,806,131	(2.5)	
	Passenger:				
	Coach and combination	58,781,554	52,286,532	12.4	
	Sleeping, parlour and observation	72,324,982	62,251,749	16.2	
	Dining	18,754,949	16,281,653	15.2	
	Motor unit	5,964,787	5,520,942	8.0	
	Other (baggage and express, etc.)	75,958,534	79,561,519	(4.5)	
		231,784,806	215,902,395	7.4	
	Work Service	2,066,354	2,154,537	(4.1)	
	Total Car Miles	2,397,831,299	2,437,863,063	(1.6)	
Ton Miles	Gross ton miles—all services (excluding passenger cars on passenger trains)	104,465,128,000	106,053,382,000	(1.5)	
	Net ton miles—all services	49,960,420,000	50,625,591,000	(1.3)	
		1967	1966	Increase or (Decrease) Tons %	
Revenue Tonnage Carried (by classes of commodities)	Agricultural products	15,477,533	17,335,897	(1,858,364)	(10.7)
	Animals and animal products	792,924	743,257	49,667	6.7
	Mine products	32,329,586	33,823,111	(1,493,525)	(4.4)
	Forest products	12,910,605	12,069,777	840,828	7.0
	Manufactures and miscellaneous	38,358,892	38,087,248	271,644	0.7
	Total carload freight	99,869,540	102,059,290	(2,189,750)	(2.1)
	All less than carload freight	332,395	525,168	(192,773)	(36.7)
Grand Total		100,201,935	102,584,458	(2,382,523)	(2.3)

Pension Trust Funds - Statement of Financial Position at December 31, 1967

Reserve for Pensions	Reserve at January 1, 1967	\$1,261,818,658
	Additions during Year	
	Increase in the unfunded liability in respect of past service of employees	40,000,000
	Contributions by employees on account of:	
	Current service	24,470,008
	Prior years' deficiencies	2,943,968
	Contributions by the Company	41,282,976
	Net earnings on investments	34,541,149
		<u>143,238,101</u>
	Deductions during Year	
	Pensions paid	40,688,714
	Refunds on termination of service	5,114,287
		<u>45,803,001</u>
	Reserve at December 31, 1967	<u>\$1,359,253,758</u>

Represented by	Investments	
	Bonds—at amortized value (market value—\$266,696,000)	\$ 325,038,312
	Mortgages—at amortized value	197,266,300
	Stocks—at cost (market value—\$162,542,000)	139,645,808
	Deposits with Trust Companies pending investment in stocks	12,334,306
		<u>674,284,726</u>
	Cash in banks	2,044,655
	Account receivable—Canadian National Railways	2,825,613
	Accrued interest and other assets	5,807,764
		<u>684,962,758</u>

Amount required for funding in accordance with the Pension Benefits Standards Act:		
Initial unfunded liability at October 1, 1967 to be liquidated over sixty years	\$675,000,000	
Payments to December 31, 1967 by Canadian National Railways in accordance with the Act	709,000	674,291,000
		<u>\$1,359,253,758</u>

W. R. Corner,
Comptroller.

Actuarial Certificate

This is to certify that the Reserve for Pensions shown in the Statement of Financial Position of the Pension Trust Funds of Canadian National Railways, amounting to \$1,359,253,758 as at December 31, 1967, in my opinion, represented adequate provision for the accumulated liabilities of pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1935 and 1959 Plans, excluding pensions granted under prior Plans.

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

William M. Mercer Limited,
Montreal, February 20, 1968

Auditors' Report

To the Trustee,
Canadian National Railways Pension Funds.

We have examined the statement of financial position of the Pension Trust Funds of Canadian National Railways at December 31, 1967. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, this financial statement is properly drawn up so as to give a true and fair view of the state of affairs of the Trust Funds at December 31, 1967 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.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

February 28, 1968

A 25-Year Synoptical History of the Canadian National Railways

Year	Gross Revenues	Railway Operating Revenues	Railway Operating Expenses	Net Railway Operating Profit or (Loss)	Other Income	Surplus or (Deficit) before Interest Charges	Interest on Debt	Surplus or (Deficit)	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Passenger Services Revenue per Passenger Mile	Average Number of Employees
	Millions	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	¢	Millions	¢	
1943	\$446.0	\$433,527	\$353,158	\$80,369	\$7,460	\$87,829	\$52,190	\$35,639	36,327	.894	3,619	2.118	106,893
1944	446.8	434,149	366,680	67,469	6,032	73,501	50,474	23,027	36,016	.893	3,697	2.165	108,278
1945	439.7	426,233	358,972	67,261	6,505	73,766	49,010	24,756	34,600	.915	3,338	2.266	110,591
1946	407.6	393,246	361,634	31,612	6,111	37,723	46,685	(8,962)	30,812	.975	2,289	2.531	109,809
1947	446.0	430,512	406,335	24,177	5,864	30,041	45,926	(15,885)	32,945	1.040	1,845	2.693	112,801
1948	499.7	483,396	471,589	11,807	1,002	12,809	46,342	(33,533)	32,943	1.195	1,755	2.773	115,395
1949	509.4	491,478	484,728	6,750	(161)	6,589	48,632	(42,043)	30,922	1.276	1,621	3.167	116,057
1950	562.6	543,275	502,252	41,023	3,138	44,161	47,422	(3,261)	31,988	1.394	1,408	3.356	116,347
1951	634.1	612,802	585,615	27,187	5,958	33,145	48,177	(15,032)	36,435	1.369	1,611	3.489	124,608
1952	684.5	661,349	640,233	21,116	4,441	25,557	25,415	142	38,430	1.397	1,635	3.566	131,297
1953	707.7	680,669	660,248	20,421	9,199	29,620	29,376	244	36,678	1.509	1,539	3.610	130,109
1954	652.1	623,552	623,965	(413)	4,182	3,769	32,527	(28,758)	32,882	1.529	1,472	3.628	122,237
1955	693.9	664,613	630,140	34,473	9,249	43,722	33,004	10,718	35,677	1.511	1,464	3.662	119,430
1956	785.7	754,931	710,977	43,954	13,906	57,860	31,783	26,077	41,935	1.461	1,501	3.758	126,639
1957	764.4	732,427	735,679	(3,252)	10,651	7,399	36,972	(29,573)	36,674	1.601	1,499	3.873	124,620
1958	716.3	680,993	698,327	(17,334)	12,264	(5,070)	46,521	(51,591)	35,077	1.554	1,269	3.980	113,086
1959	751.9	712,976	719,000	(6,024)	11,234	5,210	48,798	(43,588)	35,542	1.613	1,272	3.927	111,538
1960	723.4	663,214	681,692	(18,478)	12,004	(6,474)	61,023	(67,497)	34,011	1.547	1,208	3.990	104,155
1961	745.5	677,380	693,605	(16,225)	11,393	(4,832)	62,476	(67,308)	34,723	1.480	1,076	4.038	99,564
1962	772.1	701,623	707,442	(5,819)	19,398	13,579	62,498	(48,919)	35,595	1.487	1,044	4.212	97,922
1963	800.0	725,181	720,170	5,011	16,179	21,190	64,204	(43,014)	40,171	1.375	1,189	3.730	92,571
1964	864.2	782,632	775,175	7,457	16,477	23,934	62,660	(38,726)	44,516	1.355	1,613	3.212	93,194
1965	914.7	827,292	817,382	9,910	18,635	28,545	61,960	(33,415)	46,131	1.385	1,782	3.274	93,438
1966	998.6	906,142	881,874	24,268	15,841	40,109	64,702	(24,593)	49,643	1.376	1,995	3.382	92,604
1967	1,049.9	945,213	942,444	2,769	26,414	29,183	65,052	(35,869)	48,781	1.390	2,495	3.363	93,060

Through its history CN has been closely involved with the life and growth of towns and cities and metropolitan regions. In many cases the railway terminus was the original hub of commerce and industry while the location of main and spur lines had strong influence on the rate and direction of community growth. This intimate involvement with urban life and growth continues today in the planned relocation of urban railway facilities and the coordinated development of railway real estate.

A number of projects involving construction on, over and under CN properties in cities across Canada have taken place in recent years. These projects were carried out in cooperation with municipalities, governments at various levels and private enterprise. They have been cited as outstanding examples of well-planned urban development aimed at making the city of today a practical and pleasant place in which to live and work. Edmonton's CN Tower, pictured here is one of the most recent of such projects.

