

below those of 1944. To the end of September the average daily earnings were slightly higher than those of the previous year; in the last quarter of the year, however, the decrease was 5·8 per cent. For the entire year freight revenues decreased 1·6 per cent, passenger revenues decreased 6·6 per cent, express revenues increased 6·7 per cent and other revenues increased 3·3 per cent. The tonnages of freight traffic by commodities are given on pages 32 and 33 of this report. Due to the war such statistics have been withheld from publication since 1941. Figures for the past four years are included in this report as a matter of record.

OPERATING EXPENSES amounted to \$355,294,000 and were \$7,253,000 or two per cent less than in 1944. The 1944 accounts included \$5,428,000 for 1943 backtime payrolls; there was no similar charge in 1945. The provision made for deferred maintenance was \$5 millions in 1945 compared with \$10 millions in 1944. Equipment depreciation charges amounted to \$16,974,000 compared with \$19,853,000 in 1944, the reduction resulting from the adoption in 1945 of a depreciation rate of $3\frac{1}{8}$ per cent which is the average of the rates used by United States Class I railroads. The reductions referred to were partly offset by increased maintenance and by some increase in the cost of moving traffic. Pension costs also increased.

The increased cost of moving traffic, not compensated by additional revenue, was related to the considerable empty movement of passenger equipment to the seaboard for troop repatriation, also to the movement of Company fuel which had to be brought in from the United States at Sarnia and the Niagara Frontier for distribution throughout Eastern Canada.

The Directors feel that attention should be drawn to the higher costs of operation resulting from higher wage rates and higher unit prices for materials used in railway operation and maintenance. As compared with 1939 the higher wage rates added \$43,041,000 to the payroll in 1945 and higher unit prices added approximately \$26,350,000 to the cost of materials. In the event of any substantial decrease in traffic volume, not otherwise compensated for, these higher costs of operation would prevent a continuance of the favourable financial results which the System has been able to report for the past five years.

The above (see appendix "A") indicates what has happened in so far as operating costs are concerned. On the revenue side freight and passenger rates generally remained fixed at the pre-war level in accordance with the regulations of the Wartime Prices and Trade Board. Even so, by reason of changes in traffic characteristics, the actual revenues per ton mile decreased from 0·938 cents in 1939 to 0·915 cents in 1945 and the revenue per passenger mile from 2·035 cents to 1·953 cents. These reductions in average revenue rates are equivalent to a reduction in operating revenue of \$10,742,000.

NET OPERATING REVENUE. After deducting operating expenses, \$355,294,000, from operating revenues of \$433,773,000, net operating revenue was \$78,479,000 in 1945. The corresponding amount in 1944 was \$78,600,000.

SURPLUS FOR THE YEAR. After making provision for various charges consisting of taxes, equipment and joint facility rents, exchange and discount, also for various income credits such as dividend and interest income, the results of hotel and subsidiary company operations, etc., the net income available for the payment of interest was \$71,084,272. Interest payments to the public and to the government totalled \$46,328,142. After payment of interest the surplus for the year was \$24,756,130, an increase of \$1,729,206 over the previous year.

CAPITAL EXPENDITURE ACCOUNT

The capital expenditure during the year amounted to \$21,709,204, details of which are given on page 20. The major portion of the total expenditure was for new equipment acquired under hire-purchase agreements with the Dominion