

Shareholders' Equity

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, the Minister of Finance purchased during the year from the Company at par 22,750,879 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended November 30, 1957. An additional, 1,737,359 preferred shares of an aggregate par value equivalent to three per cent of the gross revenues for the month of December were purchased in January, 1958.

CONSOLIDATED INCOME STATEMENT

Net income for the year decreased \$55.7 million from that of the previous year. In round amounts this is explained as follows:

	Million
Decrease in operating revenues resulting from a decline in the volume of traffic partly offset by rate increases and an improvement in traffic mix	\$21.6
Increased road and equipment maintenance as a result of expansion of road maintenance work, principally on the Western Region, and also as a result of increased wage and material costs	18.3
Increased depreciation charges resulting from capital additions and \$7.5 million special depreciation on steam locomotives mentioned in Note 1 to the financial statements	14.8
Decrease in transportation expense due principally to dieselization and lower volume of traffic	(3.8)
Increase in other operating expenses, net	2.0
Decrease in taxes and rents due principally to a reduction in equipment rentals as a result of lower traffic and the increased ownership of freight cars	(4.1)
Decrease in other income, net	1.7
Increase in fixed charges due principally to interest on additional temporary loans	5.2
Decrease in net income	\$55.7

The deficit for the year of \$29.6 million is recoverable from the Government of Canada. At December 31, 1957, 13.0 million had been received on account and the balance due of \$16.6 million is shown on the balance sheet as an amount receivable.

GENERAL

Corporate Organization

During the year The Dalhousie Navigation Company, Limited was amalgamated with the Canadian National Railway Company. This elimination was part of the continuing programme of simplifying the corporate structure.

Primarily to effect a reduction in rent for leased roads the System acquired the outstanding stock of the Buffalo and Lake Huron Railway Company at a cost of \$1.1 million.

Accounting Methods

Improvements are being made constantly in all areas of accounting and control as a result of the continuous review of clerical and accounting procedures being carried out. The principles of integrated data processing have been successfully applied in appropriate areas and, as part of this development, an electronic computer centre was opened in Montreal during the year.

We wish to record our appreciation of the excellent co-operation and assistance received from the officers and employees of the System during our audit.

Yours faithfully,
GEORGE A. TOUCHE & CO.