Gross operating revenues totalled $182,241,723, a decrease of $16,154,886, or 8·14%, from the preceding year. During the first nine months of the year the reduction was $15,737,865, and in the last quarter, $417,021, indicating the traffic trend during the year. The increased grain movement contributed to check the decline in revenue in the last quarter.

Freight revenues decreased by $14,026,556, or 9·1%. A statement of revenue tonnage appears on pages 24 and 25. System grain tonnage increased by 1,446,850 tons, or 40·5%. There were no major freight rate changes during the year in Canada. In the United States the Interstate Commerce Commission authorized a general increase in freight rates of approximately 7%, effective March 28, 1938. The Board of Transport Commissioners for Canada authorized the application of these increases in connection with international traffic.

Passenger revenues decreased by $847,918, or 4·5%. In Canada coach excursion rates were increased by 25% during the year and in the United States coach class mileage rates were increased from 2 cents to 2·5 cents per mile in the eastern territory, this latter change also affecting certain Canadian rates.

Express revenue decreased $535,280, or 5·7%; Commercial Telegraph revenue decreased $411,981, or 8·4%; Switching revenue decreased $432,562, or 17·6%.

Operating Expenses

The operating expenses for the year totalled $176,175,312. This is a decrease of $4,613,546 or 2·55% as compared with 1937. A summary of operating expenses will be found on page 14 and details on pages 15 to 17.

The decrease in expenses was effected notwithstanding increases in wage costs due to the restoration of basic wages in Canada and to wage increases in the United States, reference to which was made in the 1937 report. These wage increases affected the 1938 expenses as compared with 1937 by $6,082,000. Another factor affecting the expenses was an increase in the price of materials, which amounted to $900,000. Apart from these features, there was a reduction in operating expenses of $11,600,000 as compared with the previous year. This was effected by a policy of holding operating expenses to a minimum, consistent with efficiency of operation and the provision of needed services.

During the first quarter of the year motive power and car shops were operated on a basis which would ensure an adequate supply of serviceable equipment to meet anticipated heavier transportation needs, particularly in connection with Western grain traffic. Subsequently, and concurrently with the decline which developed in Eastern and International traffic, maintenance of equipment forces throughout the system were reduced approximately 25%.

While maintenance expenses have been kept to a minimum, the property and equipment is in good condition having regard to the volume of business to be handled.

Net of Other Income and Profit and Loss Requirements

The accounts under this group increased $294,937 over 1937.

Taxes amounted to $6,946,873 compared with $6,697,242 in 1937. These figures are exclusive of sales tax added to the cost of materials, which amounted to $3,150,000 as compared with $4,200,000 in 1937.

The revenues from hotel operations increased $98,875 over 1937, and after meeting operating expenses and taxes the net operating income was $226,014, an increase of $25,927 over 1937.

Net equipment rentals payable by the company decreased $575,000.

Loss on sale of the ss. *Prince Henry* applicable to the expired service life of the vessel charged to income in 1938 amounted to $668,195.

The cost of exchange increased $493,000 over 1937.