

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1957*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 comprising the System to the extent that they 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 1957. 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, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2. Buffalo and Lake Huron Railway Company:

The railway line of this company has been operated as a part of the System for many years under a lease arrangement. Pursuant to an offer made in November 1956 to the shareholders of the company, all the shares of the capital stock have been purchased. The assets and liabilities of this company, including \$3,148,856 for property investment and \$2,023,765 of long term debt, have been consolidated with the System accounts.

Note 3. 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 4. Capital Stock:

The capital stock of the Canadian National Railway Company (other than the four per cent 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 5. Pensions:

At December 31, 1957 an amount of \$177,967,669 had been accumulated in the Pension Trust Fund in respect of pension liabilities. This amount represents provision for pensions in force under the 1935 plan, but not for pensions granted under prior plans or for increased benefits granted to employees who were contributors under the 1935 plan and who retired on pension prior to January 1, 1952. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.