IMAGE EVALUATION
TEST TARGET (MT-3)

Technical Notes / Notes techniques

The Institute has attempted to obtain the best original copy available for filming. Physical features of this copy which may alter any of the images in the reproduction are checked below.

L'Institut a microfilmé le meilleur exemplaire qu'il lui a été possible de se procurer. Certains défauts susceptibles de nuire à la qualité de la reproduction sont notés ci-dessous.

- [x] Coloured covers/ Couvertures de couleur
- [ ] Coloured maps/ Cartes géographiques en couleur
- [ ] Pages discoloured, stained or foxed/ Pages décolorées, tachetées ou piquées
- [ ] Tight binding (may cause shadows or distortion along interior margin)/ Reliure serré (peut causer de l'ombre ou de la distortion le long de la marge intérieure)
- [ ] Additional comments/ Commentaires supplémentaires
- [ ] Coloured pages/ Pages de couleur
- [ ] Coloured plates/ Planches en couleur
- [ ] Show through/ Transparence
- [ ] Pages damaged/ Pages endommagées

Bibliographic Notes / Notes bibliographiques

- [ ] Only edition available/ Seule édition disponible
- [ ] Bound with other material/ Relié avec d'autres documents
- [ ] Cover title missing/ Le titre de couverture manque
- [ ] Plates missing/ Des planches manquent
- [ ] Additional comments/ Commentaires supplémentaires
- [ ] Pagination incorrect/ Erreurs de pagination
- [ ] Pages missing/ Des pages manquent
- [ ] Maps missing/ Des cartes géographiques manquent

Th
po
of
filr

Th
co
or
ap

Th
filr
ins

Ma
in
up
bo
fol

The images appearing here are the best quality possible considering the condition and legibility of the original copy and in keeping with the filming contract specifications.

The last recorded frame on each microfiche shall contain the symbol → (meaning "CONTINUED"), or the symbol ▽ (meaning "END"), whichever applies.

The original copy was borrowed from, and filmed with, the kind consent of the following institution:

National Library of Canada

Maps or plates too large to be entirely included in one exposure are filmed beginning in the upper left hand corner, left to right and top to bottom, as many frames as required. The following diagrams illustrate the method:

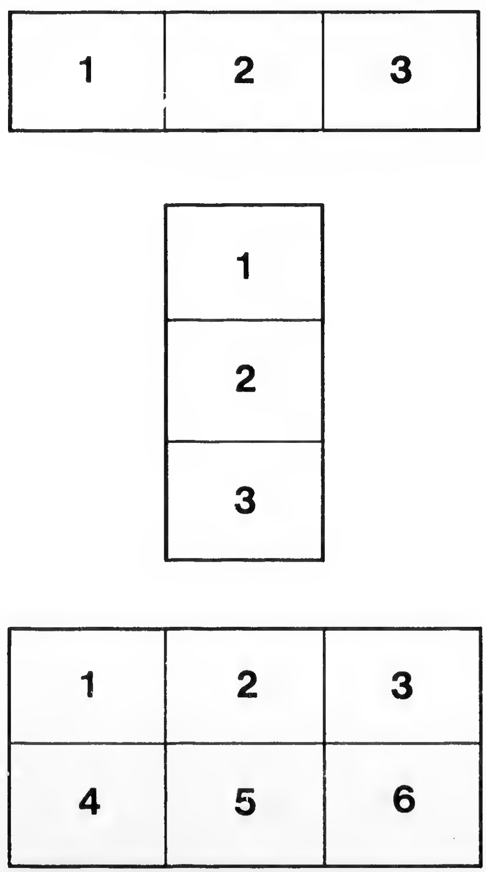
Les images suivantes ont été reproduites avec le plus grand soin, compte tenu de la condition et de la netteté de l'exemplaire filmé, et en conformité avec les conditions du contrat de filmage.

Un des symboles suivants apparaîtra sur la dernière image de chaque microfiche, selon le cas: le symbole → signifie "A SUIVRE", le symbole ▽ signifie "FIN".

L'exemplaire filmé fut reproduit grâce à la générosité de l'établissement prêteur suivant :

Bibliothèque nationale du Canada

Les cartes ou les planches trop grandes pour être reproduites en un seul cliché sont filmées à partir de l'angle supérieure gauche, de gauche à droite et de haut en bas, en prenant le nombre d'images nécessaire. Le diagramme suivant illustre la méthode :



PRICE ONE SHILLING.

Grand Trunk Railway Company of Canada.

THE GRAND TRUNK RAILWAY OF CANADA:

A Financial Review.

CONTENTS :—

CAPITAL. TRAFFIC RECEIPTS. WORKING EXPENSES. PROFITS.
CONTROLLED RAILWAYS. NET REVENUE CREDITS.
PRE-PREFERENCE CHARGES. DIVIDENDS.
RENEWAL ACCOUNTS. INVESTMENTS. COMPETITION.

LONDON:
EFFINGHAM WILSON & CO., ROYAL EXCHANGE.
1887.

T

THE

GRAND TRUNK RAILWAY OF CANADA:

A FINANCIAL REVIEW.

TABLE OF CONTENTS.

PREFACE.

In order to arrive at a clear understanding of the financial position of the Grand Trunk Railway of Canada, it is generally necessary to wade through several years of Reports and Balance-sheets. With a view of obviating this trouble on each occasion when one's memory requires refreshing, I requested a skilled accountant, who has gained a reputation in the investigation of Grand Trunk and other accounts, to dissect and set out in a plain and easily understandable manner the more important details of the business operations and various financial arrangements of the Company during the last four years.

The Review is intended to be entirely without bias either in favour of or against the Company—simply a colourless statement of its past working and present position. Believing that a statement of this character will be interesting and useful to holders of Grand Trunk Securities and to investors generally, I have had it printed, and venture to offer it to the Public.

J. E. LILLEY.

10, Throgmorton Avenue,
London, E.C.,
November, 1887.

THE GRAND TRUNK RAILWAY OF CANADA:

A FINANCIAL REVIEW.

Capital, 30th June, 1887.

Loans and Debentures—		
Terminable 6 per cent. Bonds	£1,472,700	
£900 Matured, but not paid off. £981,500 due 1st December, 1890. £490,300 due 1st January, 1919.		
5 per cent. Debentures ...	7,027,475	
4 per cent. do.	2,036,721	
		£10,536,896
Preference Stocks—		
4 per cent. "Guaranteed"	5,219,794	
5 per cent. First Preference	3,218,149	
5 per cent. Second Preference	2,327,795	
4 per cent. Third Preference	7,168,055	
		17,933,793
Ordinary Stock		20,157,675
Canadian Government Advances		3,111,500
Total Capital ...		£51,739,864

It is proposed in the following few pages to present an impartial statement of the more important facts bearing on the prospects, from a dividend point of view, of the Grand Trunk Railway of Canada.

There can be no doubt with respect to this important property, in which so large an amount of British capital is invested, that a more accurate knowledge generally of its affairs would help towards preventing the recurrence, or at least lessening the intensity, of those violent fluctuations, amounting sometimes to panic, in the various classes of its Stocks, that have from time to time wrought so much disaster in the past.

The proposed statement will naturally consist to a considerable extent of an exposition of the principal features in the financial history of the Company, as disclosed by the published accounts of the last few years. For, although in some quarters this course may be deprecated on the ground that past events are but ancient history, and that all real and direct interest centres in the realities of the present and the probabilities of the future, this cannot be seriously considered as sufficient reason for disregarding all that has gone before. Not only may history be found to repeat itself, but the occurrences of the past may have a direct connection with the circumstances of the present, and may have entailed consequences, the future course of which can be better estimated by noting their origin and tracing the effects already produced.

The points intended to be touched upon in the course of the inquiry are—(1) Traffic Receipts; (2) Working Expenses; (3) Profits; (4) Controlled Railways; (5) Net Revenue Credits; (6) Pre-preference Charges; (7) Dividends. Notice will also be taken of two other interesting items in the Company's accounts, viz.—"Renewal Accounts" and "Investments not charged to Capital"; and a few observations will be offered on the subject of Competition.

(1) **Traffic Receipts.**—The course of these during a series of years may reasonably be considered likely to form some sort of guide as to the future. For instance, a gradual and more or less steady increase from year to year would justify the expectation of the continuous development of the trade of the Dominion leading to a corresponding growth in the business of the Railway. An impartial examination of the accounts for the four-and-a-half years since the end of 1882—the fusion with the Great Western of Canada having taken place in August of that year—discloses, however, not a continuous progress in the amount of traffic receipts; but, on the contrary, very great fluctuations, the reduced amount shown during most of the period being due, as explained in the Reports, to low rates consequent on competition rather than to a falling-off in the volume of business. The weekly averages during the period referred to have been as follows:—

GRAND TRUNK (MAIN LINE) TRAFFIC RECEIPTS.

(*Weekly Averages*).

	First Half.	Second Half.	Whole Year.
	£	£	£
1883 ...	70,500 ...	79,000 ...	74,750
1884 ...	62,000 ...	70,100 ...	66,050
1885 ...	54,800 ...	60,700 ...	58,750
1886 ...	59,900 ...	73,600 ...	66,750
1887 ...	65,200 ...	77,600 (3 months).	

These figures speak plainly as to the great fluctuation adverted to above, and show that the receipts, having fallen to their lowest point in 1885, have since recovered to about the level of 1883. During the first three months of the second half of the present year the weekly average showed an improvement of £4,800 on the corresponding period of 1886, and was even better by £530 than that of 1883. The following are the exact figures :—

	1883.	1886.	1887.
Receipts for July, August & September	£1,001,893	£946,391	£1,008,700
	Per week.	Per week.	Per week.
	= £77,070	= £72,800	= £77,600

It still remains to be seen whether this recovery to the level of 1883 is to be maintained, or not; or whether even that year is to be surpassed. For October the level has not been maintained, the weekly average from 2nd to 29th of that month (deducting cartages) being £78,090,* which compares with £83,480 for October 1883. The falling-off in October appears to be partly due to the loss of the dead meat traffic, which is officially estimated at £1,700 per week. There may be other business to be secured in place of this traffic, but the probability of this clearly cannot count for so much as the certainty of the loss, which may be only a sample of the reverses to which the Grand Trunk, like other railways, is liable. The most reasonable view with regard to the future course of traffic receipts would appear to be that of hopeful anticipation, regard being had to the improved state of trade on the American Continent generally, to the beneficial operation of the Inter-state Commerce Act, and to the reported determination of the Trunk roads, now that the canal traffic is being closed for the season, to raise rates on East-bound traffic from Chicago; but to reckon on an ever-progressive growth in the weekly receipts, or even their maintenance at the present level, as an absolute certainty, appears to be contrary to reason and a more sanguine expectation than circumstances warrant.

* By the publication of another return, viz., for the week to 5th Nov., the average for five weeks from 2nd October appears to have been £77,710 per week.

It may be well to notice here that although the weekly returns for 14 weeks to 1st October exhibit an increase on 1886 of £69,343, which is sometimes represented as the increase, so far, for the current half-year, the revenue accounts for the three calendar months to 30th September, show an increase of only £62,309.

(2) **Working Expenses.**—As the traffic receipts have risen or fallen, so have the percentages of expenses been on a lower or higher scale. This is shown by the following statement:—

GRAND TRUNK (MAIN LINE) WORKING EXPENSES.

(Proportion to Receipts).

		First Half.	Second Half.	Whole Year.
1883	...	72·1 per cent.	68·0 per cent.	69·9 per cent.
1884	...	73·0 ,,	73·1 ,,	73·1 ,,
1885	...	76·6 ,,	76·0 ,,	76·3 ,,
1886	...	70·5 ,,	69·4 ,,	69·9 ,,
1887	...	70·1 ,,	67·1 ,, (3 months).	

A careful examination of these figures leads to the conclusion that the Railway has come to be more economically worked during the latter part of the period covered by the above dates. Thus, for the whole of 1886 the percentage of expenses was no higher than for 1883, although the receipts were about £8,000 per week less. Again, for the first half of 1887 the rate was 70·1 per cent. as against 72·1 for the corresponding half of 1883, although receipts were £5,300 per week less. For the first three months of the second half of 1887 receipts were £500 per week more than for the corresponding period of 1883, and expenses were at the rate of 67·1 per cent., which compares with 67·3 per cent. in 1883. It seems reasonable, therefore, to assume that, if the average of 1883 receipts be reached and maintained, either for the remainder of 1887 or in the future, working expenses may be at a somewhat lower rate than for that year.

(3) **Profits.**—The subjects of Traffic Receipts and Working Expenses having thus been touched upon, there comes in natural sequence the question of Profits, the amounts of which were as follows:—

		First Half.		Second Half.		Whole Year.
		£		£		£
1883	...	511,969	...	657,752	...	1,169,721
1884	...	434,318	...	489,964	...	924,282
1885	...	333,120	...	391,450	...	724,570
1886	...	459,326	...	585,827	...	1,045,153
1887	...	506,898	...	331,310 (3 months).		

Some of these figures will have to be referred to presently.

(4) **Controlled Railways.**—The two *controlled* railways, as distinguished from the *subsidiary* lines—the figures of which last are incorporated in the Grand Trunk accounts—are those of the Chicago and Grand Trunk, and the Detroit, Grand Haven, and Milwaukee Companies, the relations of which to the Grand Trunk require to be defined in order rightly to estimate the importance of their earnings to Grand Trunk revenue. The Grand Trunk Company guarantees the payment of the interest on the whole of the bonded debt of the Chicago and Grand Trunk in consideration of certain traffic arrangements between the two Companies. For the year 1885 the net earnings of the Chicago Company were only £76,614, and, adding a balance of £402 brought forward from the previous year, were insufficient by £93,728 for the requirements of interest on its bonded debt and other net

revenue charges, which amounted to £170,744; and this deficiency was met out of Grand Trunk revenue for 1886, as shown in the accounts of that Company to 30th June, 1886. Although, therefore, it is clearly a mistake (which is, however, often made), to treat the Chicago and Grand Trunk earnings as so much addition to the revenu of the Grand Trunk Company, this latter has a material interest in the question of those earnings being sufficient to enable the Chicago Company to meet its own bond interest and other charges. The parent Company has, moreover, a direct interest in the welfare of the Chicago Company, as being the holder of a small amount of its First Mortgage Bonds, and about £570,000 of its Second Mortgage Bonds, the half-yearly interest on which, to the amount of £14,348, appears regularly, whether received or not, amongst net revenue credits in the Grand Trunk accounts. The Grand Trunk Company also holds about £1,160,000 of Chicago and Grand Trunk Ordinary Stock. The rentals, bond interest, and other net revenue charges of the Chicago Company amounted last year (1886) to £178,446, being an increase of £41,478 as compared with 1883, when the amount was £136,968. As against this amount of £178,446 the net earnings amounted to £140,825, and the deficiency of £37,621 had to be charged against the net revenue of the Grand Trunk Company. For the first half of 1887 the net earnings were insufficient to cover net revenue charges by £2,915. This deficiency will, in all probability, be made good in the second half of the year. Should there be a surplus, which is very likely, a payment will, no doubt, be made to the parent Company on account of former advances.

As regards the Detroit, Grand Haven and Milwaukee Company, the Grand Trunk has an interest therein, as being the holder of the whole of its Ordinary Stock—about £300,000. The interest charges of the Detroit Company amounted in 1886 to £67,498, which compares with £56,117 for 1883—an increase of £11,381. Till these charges are covered by net earnings there can, of course, be no dividend for the Ordinary Stock held by the Grand Trunk Company. In 1883 the surplus of profit over interest charges was £24,657. In 1886 the surplus of net earnings over interest charges allowed of a dividend amounting to £9,246 on the Ordinary Stock. The amounts thus receivable during those two years from the Detroit Company appeared amongst net revenue credits in the accounts of the Grand Trunk Company. For the first half of 1887 the net earnings were insufficient to balance interest charges by £9,644; but the profit of the first three months of the second half of the year shows a surplus of about £4,000 over and above interest charges.

(5) **Net Revenue Credits.**—These consist mainly of interest on capital invested in the Stocks of other Companies (with the object of controlling traffics, &c.), in addition to which they sometimes include certain special receipts, such as the amounts paid by the Canada Southern Company in 1883 and 1884 in settlement of the disputed claim for the use of the International Bridge; or the proceeds of the sale of certain Bonds or other assets belonging to the Company. Irrespective of such special additions the net revenue receipts since 1882 have been as follows:—

		First Half. £		Second Half. £		Whole Year. £
1883	...	51,320	...	70,170	...	121,490
1884	...	43,242	...	36,959	...	80,201
1885	...	24,871	...	35,242	...	60,113
1886	...	35,307	...	54,625	...	89,932
1887	...	46,455	...	—	...	—

(6) **Pre-preference Charges.**—These form a very important part of the Grand Trunk Company's accounts, the more so because they have increased to a serious extent since 1883. They may be set out under four heads, thus:—

	1883.		1886.		Increase or Decrease.
	£		£		£
Rentals, Leased Lines	166,010	...	150,740	...	−15,270
Debenture Interest ...	375,930	...	432,430	...	+56,500
Bond Interest	93,285	...	88,405	...	− 4,880
Interest, Subsidiary Lines	125,350	...	161,200	...	+35,850
	760,575	...	832,775	...	+72,200

For the first half of 1887 the total was £415,576, as against £414,262 in 1886.

This growth of pre-preference charges has been continuous, the largest increase being observable for the year 1884, when the amount was very nearly £50,000 more than that for 1883. The larger amount of debenture interest is the result of fresh issues, year by year, of Debenture Stock. The total of Debenture Stock in existence at 31st December, 1886, was £9,059,879, which compares with £7,044,475 at 31st December, 1882, showing an increase of £2,015,400. These issues have involved, during the four years, charges to capital for discounts and commissions, amounting to £223,360.

(7) **Dividends.**—The foregoing remarks on the various sources of income and modes of expenditure lead up to the question of the final result in the shape of dividends. By gathering up the various threads of the subject, the following synopsis is arrived at:—

	1883. £	1884. £	1885. £	1886. £
Traffic Receipts	3,888,435	3,434,095	3,058,620	3,470,694
Working Expenses	2,718,714	2,509,813	2,329,050	2,425,541
Profit	1,169,721	924,282	724,570	1,045,153
Net Revenue Credits	121,490	92,655	60,113	89,932
	1,291,211	1,016,937	784,683	1,135,085
Pre-pref. Charges	760,579	810,437	822,048	832,774
			37,365 (Defy.)	302,311
Chicago and G. T. Co.'s Deficiencies	...	...	... ... *93,728*	*37,621*
Net Revenue	530,632	206,500	*131,093* (Defy.)	264,690

These figures show for the four years a total of net revenue applicable to dividends, of £870,729, apart from abnormal receipts or "plums," and an average dividend earning power of £217,682 per annum, which is only £9,000 more than is required for full dividend on the "Guaranteed" Stock. As a matter of fact, the revenue of the four years was supplemented from other sources as follows:—

Net Revenue, as above	£870,729
Special Receipts from Canada Southern Company, 1883	20,500
Do. do do. 1884	36,000
Do. Chicago and Grand Trunk Company on account of advances previous to June, 1882	10,274
Drawn from Revenue in 1883	39,285
Do. do. 1884	70,138
Compensation received from City of Grand Haven	11,472
Proceeds of Sale of Grand Trunk, Georgian Bay, and Lake Erie Bonds ...	37,045
Amount Realised, North Shore Railway ...	26,000
	£1,121,433

By this means dividends to an aggregate amount of £1,120,826 were distributed for the four years 1883-4-5-6, and the average rates of dividend on the several participating Stocks during the four years indicated were,— "Guaranteed," £3 per cent.; First Preference, £2 0s. 7½d. per cent.; Second Preference, £1 5s. per cent.; Third Preference, 8s. 1½d. per cent. "Guaranteed" Stock was dividendless for one year; First Preference, two years; Second and Third Preference, three years, out of the four. These four years seem to afford a fair basis for an average calculation, one of them (1883) having been very good; one good, (1886); one bad, (1884); and one very bad, (1885).

It is not here intended to pronounce any opinion on the policy of the Board of Directors in declaring and paying these dividends; but the fact should be stated that during the four years in which £1,120,000 was thus distributed, as compared with £870,700 earned by the operations of the period, the reserve funds, which at the end of 1882 stood at £205,508,* were entirely absorbed, and that the raising of money by continuous issues of Debenture Stock resulted in an addition of £56,500 to the direct annual interest charges of the Company, whilst the burden of similar charges in connection with the subsidiary lines also increased to the extent of £35,800 per annum. A consideration of these facts is calculated to give point to the remark made above as to the connection between the

* In the Report for December, 1883, there appeared the following statement:— "In addition to the Insurance Fund of £2,054 15s. 11d., the Great Western Reserve Funds amounted, at the date of Union, to £137,066 11s. 11d., and the same amount stands to the credit of those funds in the general balance-sheet of 31st December, 1883." The accounts at August, 1882, the date of Union, showed the following particulars of the Renewal Funds:—Ferry Steamer, £36,023 12s. 8d.; Locomotive, £104,889 6s. 3d.; Car, £23,417 6s. 5d.; Rail and Bridge, £9,549 6s. 8d.; Insurance, £2,054 15s. 11d.; Total, £175,934 7s. 11d.

circumstances of the present and the occurrences of the past. It is for the holders of the Debenture and other Stocks of the Company to assess the importance of what is here simply noted, and to calculate how far the dividend-earning power of the Railway has been permanently weakened.

As bearing on this vital question of dividend-earning power, it is important to notice that, on account of the addition of £72,200 to the annual amount of pre-preference charges, and the absence of any assistance to revenue by drafts on reserve, or by such other special receipts or sale of capital assets as are noted above, (except possible payments by the Chicago Company on account of its old indebtedness,) a much larger amount of profit on working is now required than in 1883 to yield an equal net result. Net revenue was supplemented in 1883 to the extent of about £59,800 from the sources here alluded to, irrespective of the repayment made by the Chicago Company; and, adding this sum to the £72,200 increase in pre-preference charges, it follows that, with the same profit on working, dividend results would now, *cæteris paribus*, be less than in 1883 by £132,000.

But this is not all. In 1883 the amount received in respect of dividend on the Company's investment in Detroit, Grand Haven and Milwaukee Stock was £24,657. There appears to be no probability of any assistance from this quarter to Grand Trunk revenue for 1887. The Detroit Company's profits for nine months to 30th September were £44,796, but interest charges are now, as already mentioned, £37,498 per annum, and the profit for the three final months of the year are not likely to be more than sufficient to make up this amount. Nor does there appear to be a prospect of any increase in net receipts in other directions, as compared with 1883, but rather the reverse, the amount for the first half of that year having been, £51,820, and for the first half of 1887 £46,455.

Consequently, as regards 1887, if the profit of 1883 could have been attained, there would (reckoning on a receipt of some £10,000 from the Chicago Company) still have been a difference of about £160,000 to £170,000 in net revenue. The balance available for dividends would thus have been sufficient, for the whole year, to cover "Guaranteed" and First Preference in full, and $2\frac{3}{4}$ to 3 per cent. on Second Preference.

On the other hand, allowance may be made, as regards the future, for expected saving of £14,000 * per annum by the exchange of certain Obligations for Four per Cent.

---

* The exchange of existing interest-bearing Obligations for Four per Cent. Debenture Stock, under the provisions of the Act of 1887, is estimated to result, when completed, in a saving of £60,000 per annum; and the President of the Company stated at the last General Meeting that, including a previous £55,000, the total saving of these and former conversions would be £115,000 a year. It may be worth while for persons interested in the question to look a little more closely into the two amounts which make up this total of £115,000. First, as to the £55,000 annual saving already effected, the President explained that £34,000 of this was effected *before the Union*, and an additional £9,000 a year up to the end of 1886; beyond which a further £12,000 a year was at that time estimated as the result of the Act of 1884; these three sums making up the amount of £55,000. The published accounts show, notwithstanding these savings, actual or estimated, that since 1883 the annual amount of debenture interest has increased £56,500, and interest, subsidiary lines £35,800, there being a saving of £20,000 in bond interest and rentals. The increase in debenture interest for 1886, as compared with 1882, was £83,360, and the decrease in bond interest and rentals, £38,230. The amounts of interest, subsidiary lines, cannot be compared, as this item was not separately stated in the accounts for 1882. Then, as to the estimated fresh saving to be effected, to the extent of £60,000 per annum, its realisation seems more or less problematical, as the holders of the Securities intended to be redeemed may not consider the terms offered sufficiently favourable to induce them to surrender what they at present hold in exchange for another Security bearing a lower rate of interest. Take, for instance, the case of the holders of Consolidated Five per Cent. Mortgage Bonds of the Midland of Canada, who are invited to exchange them for Four per Cent. Grand Trunk Debenture Stock, at the rate of 114 per 100. By this

Debenture Stock; also for £17,000 rentals and interest on purchase money of lands sold by the Chicago Company, which may possibly be paid over to the Grand Trunk Company. These two sums would yield a further $1\frac{3}{8}$ to $1\frac{1}{2}$ per cent. on Second Preference. Beyond this there may be, in the future, an improvement in the business of the Detroit line, and as this Company has no Preference Stocks, and as all profit beyond the amount of interest charges—about £67,500—is therefore available for dividend on the Ordinary Stock, it may be hoped that in the future some £10,000 to £15,000 a-year will come in from this source.

Renewal Accounts.—This is the heading under which a considerable sum has appeared in each of the half-yearly balance-sheets, beginning with that for 31st December,

---

arrangement they would give up an annual interest of £5 and receive only £4 11s. 2d.; the alternative being that at the maturity, at 1st January, 1912, of the Security they now hold, they will be paid off at par, and thus receive £100 cash at that date, instead of £114 in Grand Trunk Debenture Stock now, the present value of which, at 91, is £103 15s. It has also to be noted that the Securities proposed to be exchanged rank in priority to £7,027,475 of Five per Cent. Debenture Stock, as well as to the Four per Cent. Debenture Stock into which by the conversion they would merge; it being, however, provided "that the Securities acquired or purchased by or in exchange for the Debenture Stock authorised by the Acts of 1884 and 1887, shall be held as subsisting, and continuing as a security *pro tanto* for the benefit of the holders of the Debenture Stock." The surrender by the present holders of the Securities referred to in exchange for new Debenture Stock, will thus be the means of improving the status of the Securities held by those who hold aloof from the conversion. Anyhow, it still remains to be seen to what extent the offer of conversion will be responded to, the time up to which exchanges can be effected on the terms proposed by the Directors being the 14th December, 1887. When the proposed conversion of prior Securities into Four per Cent. Debenture Stock is completed, the saving of £60,000 per annum to be effected thereby will, it is said, practically cover the capital expenditure involved in doubling the main line from Montreal to Toronto—a distance of 333 miles, of which it is expected that 45 miles will be completed during the coming winter. In the meantime, it would appear that the only saving that can be taken into account, as reducing pre-preference charges, is £14,000 per annum arising out of the conversion of Great Western Equipment Bonds.

1883. The amount at that date was £22,467, and has since varied as follows :—

	30th June.		31st December.
	£		£
1884	100,838	...	39,053
1885	40,465	...	29,840
1886	30,328	...	21,618
1887	22,604	...	—

Presumably, such an item as this, appearing in a balance-sheet amongst assets, would represent expenditure over and above the sum fairly chargeable to revenue up to the date for which the balance-sheet was drawn up. Whether such a simple explanation can be accepted with regard to this item in the balance-sheet of the Grand Trunk Company is, however, open to some doubt by reason of the apparently contradictory statements made from time to time by the President. On 29th March, 1883, Sir Henry Tyler is reported to have spoken as follows :—

" We have considered the question of dealing as a whole with the steel rails over the united system. Mr. Hickson and the engineers have been making elaborate calculations as to what will be required in the next fifteen years to maintain the joint system in a perfect state of efficiency ; and as the result of their calculations, we shall charge £56,000 a-year as an average for that purpose, and a charge has been made during the present period to commence that system. In the same way with the bridges. The bridges on the Grand Trunk section have been so extensively renewed of late that it is not necessary to consider the necessity of a fund in connection with them at all. There will be nothing wanting but the ordinary repairs from year to year. But on the Great Western section there are still a great many bridges that will want renewal from time to time in more substantial material, stone and iron in place of wood; and there is a certain amount of work that will require to be done over the next fifteen years on that account. The total amount so required in fifteen years would be £350,000. In making these renewals, of course, it is fair to charge a portion to capital and a portion to revenue. The amount which has been charged to capital on t Great Western system hitherto is one-half; and that is about a fair amount, because a stone and iron bridge costs about twice as much as a wooden one in that country. Therefore, we deduct £175,000 from the £350,000, and it leaves £175,000 to be charged to revenue, or £11,500 a-year as an average over the next fifteen years, for the renewal of wooden bridges on the Great Western system."

From these remarks it would appear that in consequence partly of the neglect of the Great Western section previous to its fusion with the Grand Trunk, it was determined to spend £56,000 a-year for fifteen years, beginning with 1883, in renewing rails on the combined systems, and £23,000 a-year for the same period on renewals of Great Western bridges—one half of this latter outlay to be charged to revenue, and half to capital. Instead, however, of an apparent increase of £67,500 a-year in expenditure for renewals, the amounts charged to revenue under the head of renewals and repairs * during the years 1883 to 1886 compare with that for 1882 as follows :—

1882.	1883.	1884.	1885.	1886.
£429,593	£456,608	£416,456	£401,600	£435,983
(Exclusive of Subsidiary Lines.)		(Inclusive of Subsidiary Lines.)		

The charges during the five years for ballast and ballasting were :—

1882.	1883.	1884.	1885.	1886.
£12,039	£15,016	£8,065	£13,078	£11,680

At the General Meeting in October, 1884, the President's explanation was as follows :—

"I should like to say a few words first as regards . . . . . the item of £100,838 for renewal accounts (in the general balance-sheet).

* The totals here given include the amounts charged in the schedule of Maintenance and Renewals of Way, Bridges, &c., on Revenue Account, under the heads of (1) Platelayers' and Labourers' Wages and Tools; (2) Rails, Chairs, Ties, and Fittings; (3) Repairs of Bridges, Culverts, &c.; (5) Repairs of Stations, Wharves Sidings, Signals, and Approaches.

When we took over the Great Western, we found the car stock wanted extensive renewal, the bridges also wanted renewal, and the line wanted ballast; and I mentioned at previous meetings that these things had been taken into consideration; and I mentioned, particularly, what we proposed to do with regard to the whole of the rails on the joint system, and with regard to the Great Western bridges; and I mentioned that the car stock wanted renewal. This £100,000, according to the figures we have received, is divided into £43,000 car renewals and £57,000, in round figures, for renewals of rails, bridges, and so on. Of course, the idea was that it was desirable to spend this money rapidly instead of waiting to spend it from half-year to half-year, that it should be spent in considerable sums so as to put all these matters—cars and bridges particularly—into good order, and then spread the expenditure over a certain number of years—fifteen was, I think, the number of years mentioned—and charge it out at so much a year from the renewal account. A part of this £100,000 will, I have no doubt, be charged out, in this present half-year. How much more will be added *to it* I don't know; that depends entirely upon how far further expenditure may be found to be immediately necessary on works of renewal, bridges, cars, and so on, or how far they may be postponed. *I do hope that this* £100,000 *has arrived at a maximum, and that we shall not come to a higher figure*; but I cannot be certain on that subject, because, of course, it will depend on circumstances. But, at all events, I trust we shall charge it off as soon as possible, for, speaking for myself, I do abominate suspense and renewal funds of all descriptions. I think that, when a large line like this has to be kept in repair, a sufficient sum should be charged upon it every year to keep it in thorough order, and that there ought to be no complication of suspense accounts and renewal accounts, or anything of that sort; but, if there could be any justification for them, it would be, of course, in a case of this kind, where we have taken over the Great Western not in such good order as the Grand Trunk line. The expense of renewals must be met in this way. You cannot charge them to one or two, or even a few half-years, but they must be spread over a number of years I only hope we shall spread them over as few years as possible. I don't know whether I need go into the details of these expenditures, which I have prepared, upon permanent way, and upon bridges and upon cars; but if anyone is anxious for information upon that subject, I can easily give it. I think I need not trouble the whole body of shareholders with all these details. That is the general explanation."

In these remarks it seems as if the £57,000 expenditure which a year and a half previously had apparently been referred to as an *annual charge* to revenue for fifteen years, is treated as if, with the £43,000 car renewals, it were (within some reasonable amount) the *total* of the necessary expenditure—with the cursory remark by way of qualification, "How much more will be added to it I don't know."

Now, if the intention of expending £67,500 per annum has been abandoned, so much the better if it can be done with safety, but if the contemplated outlay has only been postponed it may have to be incurred at a time when it would come upon the proprietors as an unpleasant surprise, or when it would be especially inconvenient. If only for this reason a clear and authoritative explanation seems very desirable.

Commencing at 31st December, 1884, there has appeared in each half-yearly Report up to 30th June, 1887, a short statement of the position of the Renewal Accounts; the amounts of the "Car Renewal Accounts" and "Bridge Renewal Accounts" being stated, and the amount or balance of "Renewal Funds" deducted therefrom; the resulting balance, with the exception of a discrepancy at 31st December, 1884, being the same as that shown in the general balance-sheet. But these half-yearly notes are not explicit as to whether the amounts stated as "Car Renewal Account" and "Bridge Renewal Account" represent the expenditure under those heads, or are merely balances, and are entirely wanting in any explanation as to where the "Renewal Funds" come from. Neither is it stated whether the renewal expenditure referred to is distinct from, or included in, the amount entered in the schedule of Maintenance and Renewals.

Cash Invested in Securities not Charged against Capital Expenditure and *Securities on Hand*.—These two items may be taken together, being almost identical in character. In fact, they were not separately stated in the published balance-sheets till June, 1884. In the Report for that date reference was made to the former of these items in the following terms:—" The most important item standing at the credit of the Company in the general balance-sheet is that of 'Cash Invested in Securities not Charged against Capital Expenditure, £906,243,' " and a statement, from which the following list is drawn, was given of the details comprised in this total.

\$2,786,500 (£572,524) Chicago and Grand Trunk Second Mortgage Bonds, \$2,112,113, or	£433,995
£120,800 Consolidated 5 per cent. Midland of Canada Mortgage Bonds ...	111,076
\$692,800 (£142,356) International Bridge Stock	142,356
\$680,000 (£139,726) North Shore Railway Stock	34,931
\$894,900 in connection with the Central Vermont Railway	183,883
	£906,241

(A difference of £2 is caused by the omission of odd shillings.)

The amount of £183,883 was explained to consist of—

$321,023 (£65,963) on account of an authorised expenditure of $401,500 (£82,500) for—			
$120,000 (£24,657) 1st Mortgage Bonds ...	Consolidated Railroad of Vermont		
$202,000 (£41,507) Preferred Stock ...			
$400,000 (£82,192) Common Stock ...			£65,963
$500,000 (£102,740) Common Stock, Central Vermont Railroad			
$573,876 (£117,920), a long-standing debt of the Central Vermont Railroad Company to the Grand Trunk Company, to represent which the latter held—			
Acceptances of the Vermont Company		£23,584	
£117,920 1st Mort. 5 per cent. Bonds Consolidated Railroad of Vermont, valued at		94,336	
			117,920
			£183,883

These details explain the item of £906,243, Securities not charged to Capital. An explanation of the item of £244,129, Securities on hand, in the same balance-sheet—June, 1884—was given in an Appendix to the Report of the Proceedings at the October Meeting of that year, but which considerations of space preclude from being repeated here.

No other easily intelligible list of Securities has since been set out in any of the half-yearly Reports, but two lists were given in that for December, 1885, in which may be traced several of the Securities specified above. The International Bridge Stock appears as $1,499,406 in place of $692,800, as at June, 1884, and an especially noticeable feature in one of the lists is that the total *authorised* amount of Consolidated Railway of Vermont Stock is stated at $300,000, although the amount actually *held* by the Grand Trunk Company had been previously put down as $400,000. In other respects the details furnished at December, 1885, are difficult of comparison with the totals stated in the balance-sheet, especially as the various Securities are not classed under the same heads as in the balance-sheets, the distinction being between (1) Investments in the Bonds of other Companies, the interest on which is included in net revenue credits, and (2) Investments in the Preferred and Ordinary Stocks of Companies whose receipts and expenses are not included in the Grand Trunk accounts,—a distinction which it is rather difficult to appreciate. In short, it would appear as if the Board had not taken the proprietors completely into its confidence with respect to these admittedly most important parts of the Company's accounts. The questions have, indeed, been publicly raised but never answered, whether the Vermont Company's acceptances for £23,584 have been paid; if so, when, and how the payment was included in the published accounts. These points appear to be worth clearing up.

The following statement shows the fluctuations in the items under consideration as they appear in the balance-sheets of the several dates specified :—

	Cash Invested in Securities not charged to Capital Expenditure.	Securities on hand.	Totals.
	£	£	£
June, 1883	———	———	1,079,275
Dec., ,,	———	———	1,207,528
June, 1884	906,244	244,129	1,150,373
Dec., ,,	922,749	138,492	1,061,241
June, 1885	922,749	179,923	1,102,672
Dec., ,,	889,549	158,902	1,048,451
June, 1886	890,576	165,566	1,056,142
Dec., ,,	967,216	173,307	1,140,523
June, 1887	963,272	173,289	1,136,561

It seems very desirable that an explanation should be given of these fluctuations, and of the plan on which the Securities are valued for the purposes of the periodical balance-sheets.

Competition.—On this subject not much can be said with precision. That competition exists and will continue appears to be certain, but what will be its extent, or what its practical effect on the net revenue of the Company, is altogether uncertain. At the General Meeting in October, 1885, the President estimated the net loss to the Grand Trunk during the preceding half-year, in consequence of the competition of the Ontario and Quebec section of the Canadian Pacific Railway, at £32,000 net. In that year the Grand Trunk suffered very severely indeed from general competition and excessive cutting of rates. At the last General Meeting in October, 1887, the President again made some observations on this subject, especially on the "further expected competition" referred to in the June Report. His conclusion was that the only thing to be feared was a disturbance of rates, but that, so far as the Canadian Pacific was concerned, he did not think that that railway could cut rates any more than the Grand Trunk, and that, as regards American lines, although there will always be more or less cutting of rates and abstraction of traffic, there can never again be the conditions which were produced in the disastrous years of 1884 and 1885--times which "have passed away, never to return." It would appear, in fact, that the question is now not so much whether there shall be a recurrence to those bad times, as whether the good time, such as the Company experienced in 1883, shall again return, and if so, what will be the practical result to the proprietors.

It is hoped that the details set out in the preceding pages may prove of service in enabling a correct opinion to be formed on this point.

LONDON:

Crown Printing Company;
Crown Court, Milton Street, E.C.