CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL MEETING OF SHAREHOLDERS

MAY 3, 1933

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE FIFTY-SECOND ANNUAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 3, 1933

The meeting assembled, in conformity with the notice convening the same, at noon, at the General Offices of the Company at Montreal.

The Chairman of the Company, Mr. E. W. Beatty, presided and the Secretary of the Company acted as Secretary of the meeting.

The notice calling the meeting having been read by the Secretary, the President, Mr. E. W. Beatty, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1932, which had been printed and distributed to the shareholders, said:—

While the Annual Report outlines in considerable detail the principal factors which influenced the operations of the Company during the past year, some enlargement upon various features of the Report will no doubt be of interest and information to the shareholders.

Notwithstanding the very great decline in traffic, the operating ratio during the year 1932 was well maintained, working expenses, including taxes, amounting to 83.79% of gross earnings as compared with 82.80% in 1931. This result is the more noteworthy because the decline in gross earnings was substantially greater than the decline in the volume of traffic. This arises from the fact that the higher classes of passenger traffic and freight traffic, carrying more profitable rates, have declined in volume to a greater extent than the less remunerative classes, and the fact that short haul traffic, which gives a greater return for every mile of carriage, has declined in greater proportion than long haul traffic. To illustrate this I may mention a few comparative statistics.

In 1932 rail passenger revenue was less than in the preceding year by 19.2%, while the volume of passenger traffic in terms of revenue passengers carried one mile dropped only 13.2%, and the amount received for every mile a passenger was carried decreased 6.9%. The decrease in rail freight earnings was 14.7%, while the tons of freight carried one mile were only 6.9% less than in 1931, and the amount received for hauling a ton one mile 8.1% less. In 1932 the average length of a passenger journey was 81.45 miles as compared with 79.95 miles in the previous year, and the corresponding figures for the average haul of a ton of freight were 445.20 miles as against 388.91 miles. In these statistics the grain and grain products traffic is an important factor since it is the subject of long haul and low rates of carriage. This will appear from the fact that on lines West of Fort William, on which the great bulk of it is handled, it comprises 64.6% of freight ton mileage, while it yields only 43.5% of the freight earnings. To produce satisfactory results it must be supplemented by an adequate volume of higher classes of traffic, but, as I have stated, these fell off materially during the year.

The following changes in the balance sheet will have been noted. On the Assets side, Railway, Rolling Stock Equipment, Lake and River Steamers and Hotels increased $3,340,628, due principally to additions and improvements effected during the year. Acquired securities increased $1,713,320, and Advances to Controlled Properties and other investments $5,052,062. Assets in Lands and Properties decreased $3,420,471, due principally to writing down the value of unsold agricultural lands. Materials and Supplies decreased $1,286,802. Imperial, Dominion and United States Governments Accounts decreased $1,936,475, largely owing to the fact that there was included in the 1931 accounts $1,447,223 due from the Dominion Government in connection with unemployment relief and paid in 1932. Special Deposits of $1,710,195 consist of cash and securities deposited in connection with short term notes and equipment obligations. Cash in Hand and Dominion Government Bonds decreased $8,803,223.

On the Liabilities side the funded debt increased $12,500,000 owing to the issue of Convertible Ten Year Six Per Cent. Collateral Trust Bonds. Short Term Notes increased $5,000,000. Equipment obligations decreased $4,290,000 by reason of payments made during the year. The Deferred Liability of $1,447,423 represents a loan from the Dominion Government on account of unemployment relief and is repayable without interest when the Company shall resume payment of dividends at more than the rate of five per cent. per annum. Reserves, as a whole, increased $3,723,629, due mainly to the special transfer from surplus of $4,000,000 as an investment reserve. Changes in Land Surplus and Surplus Revenue are as detailed on page 16 of the Report. Working Assets at the end of the year were $52,811,144, and Current Liabilities $14,311,-257, a ratio of 3.7 times.

The decline in traffic witnessed during 1932 has continued through the first quarter of 1933. Gross Revenues in January were 16.6% below those of the preceding year, 21.5% in February and 14.3% in March, the aggregate decrease for the three months being $4,947,331 or 17.3%. Expenses have been reduced by $4,227,395, or 16%, resulting in net earnings of $1,297 479, or $719,936 less than last year.

In the endeavor to foster passenger travel your Company has instituted special excursions at very low rates. A certain definite success has been met with in attracting a large volume of short distance travel in this way, which has proved profitable, but it is obvious that this method of developing new business has its limits, since, under present conditions, the number of people in a position to travel is greatly reduced.

An experiment is also being made in combined rail and motor transportation of freight. The experiment has been confined to the more densely settled part of the country in the western peninsula of Ontario, but sufficient time has not elapsed to form an accurate judgment of its results.

The operations of your Steamship Company during 1932 on the Atlantic and Pacific resulted in a somewhat better showing than during 1931. This, however, was due largely to drastic reductions in expenses. In view of the situation every effort was made to curtail expenditures by reductions in sailings, reductions in wages, pilotage and in every other way possible.

In common with the experience on all international trade routes, overseas passenger traffic to and from Canadian Atlantic and Pacific ports decreased in 1932 compared with 1931. There was a small increase in passenger traffic from Canadian ports to Europe, but the westbound movement declined by 14.7%. Westbound Atlantic traffic continues to be affected adversely by the general economic conditions in Europe, and our fleet which was designed in some measure to facilitate the transportation to Canada of settlers approved for immigration by the Dominion Government is particularly affected by the decrease in the number of immigrants to Canada which declined from 133,141 in 1929, to 6,882 in 1932.

In view of the serious shortage of traffic on our established routes steps were taken to find other employment for your ships and our efforts have been successful. Cruises were operated from Canada and the United States as in previous years, and there was a new development in short sea cruises from the United Kingdom. It is extremely satisfactory to note that no fewer than 25,221 people enjoyed a sea cruise on Canadian Pacific Steamships during 1932. This cruise employment enabled us to make use of several of our vessels at an actual profit, which vessels would otherwise have been laid up at heavy expense. Apart from the revenue obtained, these cruises have the advantage of bringing to the attention of the travelling public the high standard of the Canadian Pacific fleet, its personnel and service. Canadian Pacific cruising ships in 1932 visited 87 world ports and the passenger lists contain the names of representatives of many different nationalities. The "Empress of Britain" completed at Southampton on April 19th her second World Cruise and it is estimated 50,000 people visited the ship at her numerous ports of call.

In our regular services, it is gratifying to record that we maintained our leading position in passenger carryings to and from Canadian Atlantic ports,—we conveyed 59.8% of the traffic to and from Europe with only 35.2% of the aggregate departures and arrivals of all steamship lines. On the Atlantic the "Empress of Britain" improved her position both in speed and in traffic returns. In June 1932 the Empress crossed from Father Point to Cherbourg in the record time of 4 days, 7 hours, 58 minutes. Her average speed for 1932 is excelled by only two other merchant vessels in the world. With a sea and air service, letters from England were delivered at Montreal in 3 days, 22 hours; Ottawa 4 days; Vancouver 6 days 3 hours. Compared with 1931, the Britain in 1932 made one more westbound sailing and two more eastbound sailings, and increased her carryings for the year by 4,156 passengers.

During a period of unexampled world economic conditions it is natural that a severe strain should be placed upon the long established passenger conference agreements under which the Atlantic Lines operate. In the spring of 1932 the agreements were temporarily abandoned as a result of differences of opinion as to the value of low rates in the creation of traffic from the United States and Canada. Radically reduced rates followed and were in operation from April until December, 1932, and it is of interest to remark that compared with a similar period in 1931 the higher classes of eastbound traffic of all North Atlantic Lines showed a decrease of 27%, while Tourist Class and Third Class increased by 11.2%.

Within the last ten years the construction of 20 large liners designated and rated as Cabin ships, and the conversion from a First Class designation to Cabin of 19 large vessels which were built originally as high grade First Class ships, has destroyed the equilibrium of the Atlantic rate structure. Of the 61 Cabin ships employed on the Atlantic, many excel in size, speed and accommodation, some of the 19 ships now charging higher fares on account of their being advertised with a First Class designation. There is some foundation for the belief that the old established Atlantic system of rating ships to enable all Lines to have an equitable share of traffic has outlived its usefulness, and the rate situation cannot be regarded as stabilized until a new basis of rating ships has been secured.

On the Pacific our fleet withstands competition of the most acute nature from ships which have been built with financial aid from Governments, and which could not continue in successful operation were it not for large mail subsidies provided by benevolent taxpayers. The effect of this subsidized competition is felt particularly by the Canadian-Australasian Line in which we have a financial interest. Despite these handicaps the Canadian Pacific ships maintain their relative position for competitive traffic to and from the Orient. During 1932 on each round trip of our Trans-Pacific Empresses an average of 1,386 people were conveyed as full voyage or part voyage passengers. The introduction of calls at Honolulu by our Trans-Pacific Empresses has been a success. Since we established the calls three years ago, 12,411 passengers on our ships have embarked or disembarked at that port.

Freight tonnage and revenue on the Atlantic both show a small decrease as compared with the previous year.

Small foreign tramp ships are finding their way in increasing numbers to the Great Lakes, with the result that the regular steamship lines trading to and from Canadian ports have been forced to meet this competition. In this connection it should be pointed out that these foreign tramps have free use of the St. Lawrence Canals and leave practically no money in this country. The attention of the Government has been called to this situation.

The Imperial Conference Agreements concluded at Ottawa in August 1932 have benefited your ships and greater benefit should result as time goes on. The recent trade treaty with Germany should also tend to an increase of trade with that country.

Freight tonnage carried to and from the Orient is approximately the same as in 1931, but owing to disturbed conditions and excessive competition freight revenues on the Pacific were down about 10%.

Your Company's fleet, I think it can be claimed without fear of contradiction, is one of the best balanced in the world and the innovations in methods of propulsion have been in advance of the engineering practice adopted by any other Lines up to the time the ships were built. The "Empress of Britain" and "Empress of Japan," to cite two outstanding examples, are today in relation to results achieved the most economically operated vessels afloat.

The results in saving in fuel consumption and repairs have surpassed our hopes. Experiments are under way which promise to cut still further the cost of propulsion.

I am glad to say that during the period under review there was no major accident to any vessel of the Company's fleet.

Your hotel system and interest in other hotels and resorts represents an investment of 5.86% of the total of the Company's assets. In hotel construction the Company followed a policy adopted early in its history. The prime object of the hotels was to promote passenger traffic on rail and steamship lines. This they have accomplished, and in so doing have played an important part in bringing Canada to the favourable attention of the world and in stimulating tourist business which, in normal times, constitutes one of the greatest sources of revenue to this country. The net operating earnings of the Royal York, the largest unit in your system, since its opening in June, 1929 to the end of 1932 have aggregated $1,500,000, and its value to the Company in added prestige and goodwill has been very substantial. While in 1932, generally regarded as the worst year from a travel and hotel standpoint experienced in North America, the operation of your hotel system for the first time showed an operating loss after all taxes, there is nothing to indicate that the permanent success of your hotel enterprise is more than temporarily interrupted.

The Annual Report deals generally with the situation arising out of the legislation following upon the report of the Royal Commission on Transportation. In the opinion of myself and the directors of the Company, it is extremely doubtful if the legislation will be productive of economies to the extent necessary to remedy the railway situation. The Government has intimated that the recommendations of the Commission should be given a fair trial and your Company, through its directors has given its assurance that it will wholeheartedly co-operate with the Government railways in an effort to eliminate duplication in services and wasteful practices. Substantial progress has already been made and the joint efforts of the companies will, I am satisfied, continue with sincerity of purpose and with mutual good faith.

Your directors have expressed, through me, their apprehension of the dangers of the present situation and their views as to the solution of what constitutes our gravest national problem. Their views are based upon a most careful consideration of Canada's transportation situation, have been unchanged for more than a decade, and have remained unaltered throughout all fluctuations in your Company's operating results.

It is a matter of great disappointment that your Company's long dividend record was interrupted last year. Dividends were paid on the Preference Stock at the rate of four per cent. per annum since the first issue of the stock in 1893 down to and including the first half of 1932. On the Ordinary Stock dividends were paid without interruption from 1882 down to 1931; for the years 1911 to 1931 the rate was ten per cent. per annum, and for 1931 five per cent. per annum.

It was inevitable, however, that with earnings at the extraordinary levels of the last two years, dividends could not be continued with safety. The policy of your directors has been one of careful, deliberate and progressive retrenchment in order to meet the conditions of the times, and this policy will be continued in order that every avenue of economy may be explored. I believe it will have your approval as the best means of conserving your interests.

Before you next assemble in annual meeting a considerable amount of financing will be necessary, and there will therefore be proposed for your consideration a resolution authorizing the issue of additional Consolidated Debenture Stock to permit the liquidation of the Company's short term loans mentioned in the Annual Report, and other maturing obligations.

To finance the obligations I have mentioned, and provide for other capital requirements, it will be necessary, if present market conditions continue throughout the year, to issue a substantial amount of Consolidated Debenture Stock to be utilized as collateral security to such issues as may be found to be necessary. Owing to the uncertainty of events it would be wise, I suggest, to confer the amplest authority on your directors for the issue of such stock.

I would like to conclude these remarks by a reference to the future of the Company. The shareholders will appreciate that their property is in excellent physical condition, that its financial structure is on a conservative basis and that its organization and personnel are competent and adequate. With these fundamental requirements to efficient operation fully satisfied, there remains but one thing lacking to a resumption of normal earnings and that is increased traffic. If we are correct in our estimate that more normal traffic conditions will not be long deferred there is no reason to be apprehensive of the Company's ultimate earning power. It will feel almost immediately any improvement in conditions and is fully equipped to take advantage of them. I am very hopeful it will then continue to enjoy a prosperity very similar to that of former years.

The Report was unanimously adopted upon the following resolution which was moved by Mr. E. W. Beatty and seconded by Sir Herbert S. Holt, viz.:—

Resolved—That the report on the affairs of the Company for the year ended December 31, 1932, now submitted, be and the same is hereby adopted and that the expenditures on capital account reported and recommended therein be and the same are hereby approved and authorized.

The following resolution relating to agreements between The Canadian Northern and Canadian National Railway Companies and this Company, was submitted, and, on motion of Sir Thomas Tait, seconded by Mr. Randall Davidson, was unanimously adopted, viz.:—

Resolved—That the following agreements for joint use of facilities, that is to say:—

1. Agreement, dated November 15, 1932, between this Company of the one part and The Canadian Northern Railway Company and Canadian National Railway Company of the other part, whereby The Canadian Northern Railway Company and Canadian National Railway Company are given the joint use and enjoyment of the portions of this Company's line between Youngstown and Coronation, the Coronation Terminals and between Coronation and Alliance, all in the Province of Alberta, on the basis of paying one-half the interest charge on capital account and a wheelage proportion, with a minimum of 20%, of maintenance and operation expenses.

2. Agreement, dated November 15, 1932, between The Canadian Northern Railway Company and Canadian National Railway Company of the one part and this Company of the other part, whereby this Company acquired the right to use a portion of the main line and the passenger station and freight shed of the Canadian National at Youngstown, Alberta, on the basis of paying one-half the interest charge on capital account and a wheelage proportion, with a minimum of 20%, of the maintenance and operation expenses.

3. Agreement, dated November 15, 1932, between The Canadian Northern Railway Company and Canadian National Railway Company of the one part and this Company of the other part,

whereby this Company acquired the right to use the line of the Canadian National from North Battleford through Hamlin to Glenbush and from Glenbush to Medstead, all in the Province of Saskatchewan, on the basis of paying one-half the interest charge on capital account and a wheelage proportion, with a minimum of 20% of the maintenance and operation expenses.
be approved and that the execution thereof by this Company be and is hereby ratified.

The following resolution authorizing the issue of Consolidated Debenture Stock was submitted and, on motion of Sir Frederick Williams-Taylor, seconded by Mr. W. B. Blackader, was unanimously adopted, viz.:—

Resolved—That the Directors be and they are hereby authorized to issue and dispose of by way of sale or pledge, Consolidated Debenture Stock bearing interest at the rate of four per cent. per annum in such amounts and at such times as they shall deem expedient, but not exceeding in the aggregate the amount which the Company is by law empowered to issue, for the purpose of refunding maturing obligations and defraying in part the capital cost of extensions and improvements of the property of the Company heretofore made and to be made during the current year.

The meeting then proceeded to the election of Directors and, on motion of Sir Charles Gordon, seconded by Mr. Ross H. McMaster, the following resolution was unanimously adopted:

Whereas in pursuance of By-law No. 6, Mr. E. W. Beatty, Mr. W. A. Black, Hon. Frederick L. Beique, K.C., and Rt. Hon. Lord Shaughnessy, K.C., Directors of the Company, retire from office at this meeting:

And Whereas four Directors to replace the said retiring Directors, who are, however, eligible for re-election, must be elected at this meeting for the term of four years as provided for in the said By-law;

It is resolved That a ballot be now taken for the election of four Directors for the term of four years to fill the vacancies created as above stated; that Lt. Col. Wm. A. Grant and Mr. Wm. C. Finley be appointed scrutineers to take such ballot, and that the poll be closed when five minutes shall have elapsed without a vote being cast at such election.

The ballot having been taken and no further votes having been cast within the specified time, Lt. Col. William A. Grant read the report of the Scrutineers, which declared that Mr. E. W. Beatty, Mr. W. A. Black, Hon. Frederick L. Beique, K.C., and Rt. Hon.

Lord Shaughnessy, K.C., were elected Directors for the term of four years, and the report was adopted.

The proceedings then terminated.

Chairman.

E. Alexander

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Mr. E. W. Beatty was re-elected Chairman and President of the Company, and Mr. Grant Hall, Vice-President, and the following were appointed the Executive Committee:—

Mr. E. W. Beatty,
Mr. Grant Hall,
Sir Herbert S. Holt,
Mr. W. N. Tilley, K.C.,
Hon. F. L. Beique K.C.,
Sir Charles Gordon, G.B.E.