

CANADIAN NATIONAL RAILWAY CO
Form 6-K
July 25, 2008

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of July, 2008

Commission File Number: 001-02413

Canadian National Railway Company
(Translation of registrant's name into English)

935 de la Gauchetiere Street West
Montreal, Quebec
Canada H3B 2M9

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under
cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
permitted by Regulation S-T Rule 101(b)(7):

Yes

No

Indicate by check mark whether by furnishing the information contained in this Form,
the Registrant is also thereby furnishing the information to the Commission pursuant
to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Canadian National Railway Company

Table of Contents

Item

1. News Release dated July 21, 2008 entitled, "CN reports Q2-2008 net income of C\$459 million, or C\$0.95 per diluted share, including deferred income tax recovery of C\$0.05".
 2. Interim Consolidated Financial Statements and Notes thereto (U.S. GAAP)
 3. Management's Discussion and Analysis (U.S. GAAP)
 4. Certificate of CEO
 5. Certificate of CFO
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North America's Railroad

NEWS RELEASE

CN reports Q2-2008 net income of C\$459 million,
or C\$0.95 per diluted share, including deferred
income tax recovery of C\$0.05

MONTREAL, July 21, 2008 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the second quarter and first half ended June 30, 2008.

Second-quarter 2008 results

- Diluted earnings per share declined six per cent to C\$0.95.
 - Net income declined 11 per cent to C\$459 million.
 - Revenues increased four per cent to C\$2,098 million.
- Operating income declined 13 per cent to C\$707 million, with the Company's operating ratio rising by 6.3 points to 66.3 per cent.
- The stronger Canadian dollar relative to the U.S. dollar, which affects the conversion of CN's U.S. dollar-denominated revenues and expenses, reduced second-quarter 2008 net income by approximately C\$25 million, or C\$0.05 per diluted share.

CN's second-quarter 2008 and 2007 results included deferred income tax recoveries of C\$23 million (C\$0.05 per diluted share) and C\$30 million (C\$0.06 per diluted share), respectively, as a result of continued reductions in corporate income tax rates in Canada.

E. Hunter Harrison, president and chief executive officer, said: "I am pleased with our second-quarter results given the challenges we faced during the period. Operations performed very well, and we saw revenue gains across most of our commodity groups, although the gains only partly helped to offset spiralling fuel costs that rose 60 per cent year over year to almost C\$400 million.

"Despite the headwinds, we saw double-digit growth in intermodal revenues as a result of new container traffic over the Port of Prince Rupert and continued import strength at the Port of Vancouver, as well as higher volumes of commodities to support oil sands development in Alberta.

"CN continues to face economic uncertainties in the current environment, but we are still targeting diluted earnings per share growth in the mid-single-digit range for full-year 2008." (1)

The four per cent increase in second-quarter 2008 revenues was largely attributable to freight rate increases, of which approximately two-thirds were due to a higher fuel surcharge, and increased volumes in specific commodity groups, including intermodal and metals and minerals. Partly offsetting these gains were the negative translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues and weakness in specific markets, particularly forest products and automotive.

Five of CN's seven commodity groups registered revenues gains in the quarter, led by intermodal (14 per cent), coal (eight per cent), petroleum and chemicals (seven per cent), metals and minerals (six per cent), and grain and fertilizers (four per cent). Forest products revenues declined 14 per cent, and automotive revenues declined 13 per cent.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by the Company, declined by two per cent during the second quarter versus the comparable period of 2007.

Second-quarter 2008 total rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased four per cent, mainly due to freight rate increases that were partially offset by the translation impact of the stronger Canadian dollar.

Operating expenses for the quarter increased by 14 per cent to C\$1,391 million, largely as a result of increases in fuel costs, purchased services and material, and casualty and other expenses, which were partly offset by the favorable translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses, and lower labor and fringe benefits expense.

First-half 2008 results

Net income for the first half of 2008 was C\$770 million, or C\$1.59 per diluted share, compared with net income of C\$840 million, or C\$1.63 per diluted share for the comparable period of 2007.

First-half 2008 net income included a deferred income tax recovery of C\$23 million (C\$0.05 per diluted share) owing to a reduction in provincial corporate income tax rates in Canada, as well as a deferred income tax recovery of C\$11 million (C\$0.02 per diluted share) resulting from net capital losses arising from the reorganization of a subsidiary.

First-half 2007 net income included a C\$30 million (C\$0.06 per diluted share) deferred income tax recovery owing to a reduction in the federal corporate income tax rate in Canada.

Operating income for the first half of 2008 declined 10 per cent to C\$1,230 million, while the Company's first-half 2008 operating ratio increased by 4.3 points to 69.4 per cent.

Revenues for the period increased two per cent to C\$4,025 million, mainly due to freight rate increases, of which approximately two-thirds were due to a higher fuel surcharge, and increased volumes in specific commodity groups, including intermodal and metals and minerals. The increased volumes reflected the negative impact of a conductors' strike in Canada on first-quarter 2007 volumes that was partly offset by the impact of difficult weather conditions experienced in Canada and the U.S. Midwest during the first quarter of 2008.

Partly offsetting these factors were the negative translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues and weakness in specific markets, particularly forest products and automotive.

Revenue ton-miles for the first half of 2008 were relatively flat compared with the year-earlier period, while total rail freight revenue per revenue ton-mile increased one per cent.

First-half 2008 operating expenses increased nine per cent to C\$2,795 million, largely owing to increases in fuel costs, purchased services and material, and casualty and other expenses. These factors were partly offset by the favorable translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses and lower labor and fringe benefits expense.

CN estimates the conductors' strike had a negative impact on first-quarter 2007 operating income and net income of approximately C\$50 million and C\$35 million (C\$0.07 per diluted share), respectively.

The strengthening of the Canadian dollar relative to the U.S. dollar reduced first-half 2008 net income by approximately C\$55 million, or C\$0.11 per diluted share.

The financial results in this news release were determined on the basis of U.S. Generally Accepted Accounting Principles (U.S. GAAP).

(1) CN's financial outlook for 2008 – diluted earnings per share (EPS) growth in the mid-single-digit range over 2007 adjusted diluted EPS of C\$3.40 – is based on certain assumptions for the balance of 2008: a Canadian-U.S. dollar exchange rate at or around parity, a crude oil (West Texas Intermediate) price of around US\$135 per barrel, and North American economic growth of approximately one per cent.

Forward-Looking Statements

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. In addition to the other assumptions contained in this release, the Company believes the U.S. economy is currently experiencing recessionary conditions, but assumes that it will recover within the next six to nine months, and that the global economy will grow at a moderate pace throughout this period. The Company cautions that these, as well as its other assumptions stated above, may not materialize. The Company's results could differ materially from those expressed or implied in such forward-looking statements. Important factors that could cause such differences include, but are not limited to, industry competition, legislative and/or regulatory developments, compliance with environmental laws and regulations, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, the effects of adverse general economic and business conditions, inflation, currency fluctuations, changes in fuel prices, labor disruptions, environmental claims, investigations or proceedings, other types of claims and litigation, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports and Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of major risks.

CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

CN – Canadian National Railway Company and its operating railway subsidiaries – spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the company's website at www.cn.ca.

- 30 -

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)
(In millions, except per share data)

| | Three months ended | | Six months ended | |
|-----------------------------------|--------------------------------|----------|------------------|----------|
| | June 30 2008 (Unaudited) | 2007 | June 30 2008 | 2007 |
| Revenues | \$ 2,098 | \$ 2,027 | \$ 4,025 | \$ 3,933 |
| Operating expenses | | | | |
| Labor and fringe benefits | 392 | 430 | 853 | 915 |
| Purchased services and material | 283 | 263 | 568 | 539 |
| Fuel | 399 | 249 | 709 | 468 |
| Depreciation and amortization | 176 | 168 | 351 | 339 |
| Equipment rents | 60 | 62 | 124 | 128 |
| Casualty and other | 81 | 44 | 190 | 172 |
| Total operating expenses | 1,391 | 1,216 | 2,795 | 2,561 |
| Operating income | 707 | 811 | 1,230 | 1,372 |
| Interest expense | (87) | (85) | (173) | (173) |
| Other income | 9 | 1 | 3 | 5 |
| Income before income taxes | 629 | 727 | 1,060 | 1,204 |
| Income tax expense (Note 7) | (170) | (211) | (290) | (364) |
| Net income | \$ 459 | \$ 516 | \$ 770 | \$ 840 |
| Earnings per share (Note 8) | | | | |
| Basic | \$ 0.96 | \$ 1.02 | \$ 1.61 | \$ 1.65 |
| Diluted | \$ 0.95 | \$ 1.01 | \$ 1.59 | \$ 1.63 |
| Weighted-average number of shares | | | | |
| Basic | 476.4 | 505.2 | 479.6 | 507.7 |
| Diluted | 482.0 | 512.3 | 485.3 | 515.1 |

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET (U.S. GAAP)
(In millions)

| | June 30 2008 (Unaudited) | December 31 2007 | June 30 2007 (Unaudited) |
|--|--------------------------------|---------------------|--------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 161 | \$ 310 | \$ 241 |
| Accounts receivable (Note 3) | 843 | 370 | 425 |
| Material and supplies | 217 | 162 | 204 |
| Deferred income taxes | 67 | 68 | 73 |
| Other | 88 | 138 | 159 |
| | 1,376 | 1,048 | 1,102 |
| Properties | 20,864 | 20,413 | 20,401 |
| Intangible and other assets | 2,113 | 1,999 | 1,664 |
| Total assets | \$ 24,353 | \$ 23,460 | \$ 23,167 |
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable and accrued charges | \$ 1,198 | \$ 1,282 | \$ 1,427 |
| Current portion of long-term debt | 85 | 254 | 366 |
| Other | 91 | 54 | 62 |
| | 1,374 | 1,590 | 1,855 |
| Deferred income taxes (Note 7) | 5,100 | 4,908 | 4,885 |
| Other liabilities and deferred credits | 1,381 | 1,422 | 1,443 |
| Long-term debt (Note 3) | 6,389 | 5,363 | 5,193 |
| Shareholders' equity: | | | |
| Common shares | 4,208 | 4,283 | 4,417 |
| Accumulated other comprehensive loss | (1) | (31) | (180) |
| Retained earnings | 5,902 | 5,925 | 5,554 |
| | 10,109 | 10,177 | 9,791 |
| Total liabilities and shareholders' equity | \$ 24,353 | \$ 23,460 | \$ 23,167 |
| See accompanying notes to unaudited consolidated financial statements. | | | |

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. GAAP)
(In millions)

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|----------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Common shares (1) | | | | |
| Balance, beginning of period | \$ 4,241 | \$ 4,426 | \$ 4,283 | \$ 4,459 |
| Stock options exercised and other | 19 | 44 | 42 | 67 |
| Share repurchase programs (Note 3) | (52) | (53) | (117) | (109) |
| Balance, end of period | \$ 4,208 | \$ 4,417 | \$ 4,208 | \$ 4,417 |
| Accumulated other comprehensive loss | | | | |
| Balance, beginning of period | \$ 9 | \$ (50) | \$ (31) | \$ (44) |
| Other comprehensive income (loss): | | | | |
| Unrealized foreign exchange gain (loss) on: | | | | |
| Translation of the net investment in foreign operations | (47) | (477) | 140 | (533) |
| Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries | 41 | 391 | (141) | 438 |
| Pension and other postretirement benefit plans (Note 5): | | | | |
| Amortization of net actuarial loss (gain) included in net periodic benefit cost | (1) | 13 | (2) | 25 |
| Amortization of prior service cost included in net periodic benefit cost | 6 | 6 | 12 | 11 |
| Other comprehensive income (loss) before income taxes | (1) | (67) | 9 | (59) |
| Income tax recovery (expense) | (9) | (63) | 21 | (77) |
| Other comprehensive income (loss) | (10) | (130) | 30 | (136) |
| Balance, end of period | \$ (1) | \$ (180) | \$ (1) | \$ (180) |
| Retained earnings | | | | |
| Balance, beginning of period | \$ 5,823 | \$ 5,434 | \$ 5,925 | \$ 5,409 |
| Adoption of new accounting pronouncements (2) | - | - | - | 95 |
| Restated balance, beginning of period | 5,823 | 5,434 | 5,925 | 5,504 |
| Net income | 459 | 516 | 770 | 840 |
| Share repurchase programs (Note 3) | (271) | (291) | (573) | (578) |
| Dividends | (109) | (105) | (220) | (212) |
| Balance, end of period | \$ 5,902 | \$ 5,554 | \$ 5,902 | \$ 5,554 |

See accompanying notes to unaudited consolidated financial statements.

- (1) During the three and six months ended June 30, 2008, the Company issued 0.7 million and 1.5 million common shares, respectively, as a result of stock options exercised, and repurchased 6.0 million and 13.3 million common shares, respectively, under its 33.0 million share repurchase program. At June 30, 2008, the Company had 473.4 million common shares outstanding.

(2)

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes," and early adopted the measurement date provisions of Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The application of FIN No. 48 on January 1, 2007 had the effect of decreasing the net deferred income tax liability and increasing Retained earnings by \$98 million. The application of SFAS No. 158 on January 1, 2007 had the effect of decreasing Retained earnings by \$3 million.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (U.S. GAAP)
(In millions)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Operating activities | | | | |
| Net income | \$ 459 | \$ 516 | \$ 770 | \$ 840 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | | | |
| Depreciation and amortization | 176 | 169 | 351 | 341 |
| Deferred income taxes | 89 | 43 | 114 | 50 |
| Other changes in: | | | | |
| Accounts receivable | (233) | 38 | (468) | 214 |
| Material and supplies | (6) | (1) | (54) | (20) |
| Accounts payable and accrued charges | (58) | (4) | (126) | (406) |
| Other net current assets and liabilities | 41 | 27 | 79 | 9 |
| Other | (59) | (22) | (92) | 1 |
| Cash provided from operating activities | 409 | 766 | 574 | 1,029 |
| Investing activities | | | | |
| Property additions | (352) | (344) | (529) | (547) |
| Other, net | 9 | 2 | 20 | 12 |
| Cash used by investing activities | (343) | (342) | (509) | (535) |
| Financing activities | | | | |
| Issuance of long-term debt | 1,597 | 1,050 | 2,652 | 1,484 |
| Reduction of long-term debt | (1,418) | (904) | (1,998) | (1,049) |
| Issuance of common shares due to exercise of stock options and related excess tax benefits realized | 16 | 41 | 34 | 59 |
| Repurchase of common shares | (323) | (344) | (690) | (687) |
| Dividends paid | (109) | (105) | (220) | (212) |
| Cash used by financing activities | (237) | (262) | (222) | (405) |
| Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents | (2) | (27) | 8 | (27) |
| Net increase (decrease) in cash and cash equivalents | (173) | 135 | (149) | 62 |
| Cash and cash equivalents, beginning of period | 334 | 106 | 310 | 179 |
| Cash and cash equivalents, end of period | \$ 161 | \$ 241 | \$ 161 | \$ 241 |
| Supplemental cash flow information | | | | |
| Net cash receipts from customers and other | \$ 1,886 | \$ 2,086 | \$ 3,634 | \$ 4,160 |
| Net cash payments for: | | | | |
| Employee services, suppliers and other expenses | (1,215) | (1,017) | (2,554) | (2,254) |
| Interest | (90) | (73) | (190) | (187) |
| Workforce reductions | (6) | (7) | (12) | (16) |

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| | | | | |
|---|--------|--------|--------|----------|
| Personal injury and other claims | (18) | (26) | (44) | (46) |
| Pensions | (31) | (22) | (53) | (23) |
| Income taxes | (117) | (175) | (207) | (605) |
| Cash provided from operating activities | \$ 409 | \$ 766 | \$ 574 | \$ 1,029 |

See accompanying notes to unaudited consolidated financial statements.

8

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
GAAP)

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at June 30, 2008, December 31, 2007, and June 30, 2007, and its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2008 and 2007.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2007 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's Interim Management's Discussion and Analysis (MD&A) and Annual Consolidated Financial Statements and Notes thereto.

Note 2 - Agreement to acquire Elgin, Joliet and Eastern Railway Company (EJ&E)

In September 2007, the Company entered into an agreement with the U.S. Steel Corporation (U.S. Steel) for the acquisition of the key operations of EJ&E for a purchase price of approximately U.S.\$300 million. Under the terms of the agreement, the Company will acquire substantially all of the railroad assets and equipment of EJ&E, except those that support the Gary Works site in northwest Indiana and the steelmaking operations of U.S. Steel. The acquisition will be financed by debt and cash on hand.

In accordance with the terms of the agreement, the Company's obligation to consummate the acquisition is subject to the Company having obtained from the Surface Transportation Board (STB) a final, unappealable decision that approves the acquisition and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the acquisition to the Company.

On November 26, 2007, the STB accepted the Company's application to consider the acquisition as a minor transaction. The STB, however, is also requiring an Environmental Impact Statement (EIS) for the transaction, and it has indicated that its decision on the transaction will not be issued until the EIS process is completed. The Company has requested that the STB establish time limits for it to conclude its environmental review and issue a decision that would enable the transaction to close by late 2008. If the transaction is approved by the STB, the Company will account for the acquisition using the purchase method of accounting.

Note 3 - Financing activities

Shelf prospectus and registration statement

In May 2008, the Company issued U.S.\$325 million (Cdn\$331 million) of 4.95% Notes due 2014 and U.S.\$325 million (Cdn\$331 million) of 5.55% Notes due 2018. The debt offering was made under the Company's current shelf prospectus and registration statement. Accordingly, the amount available under the shelf prospectus and registration statement has been reduced to U.S.\$1.85 billion. The Company used the net proceeds of U.S.\$643 million to repay a portion of its commercial paper outstanding, and to reduce its account receivable securitization program.

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
GAAP)

Revolving credit facility

As at June 30, 2008, the Company had letters of credit drawn on its U.S.\$1 billion revolving credit facility, expiring in October 2011, of \$179 million (\$57 million as at December 31, 2007). The Company also had total borrowings under its commercial paper program of \$345 million, of which \$230 million was denominated in Canadian dollars and \$115 million was denominated in U.S. dollars (U.S.\$113 million). The weighted-average interest rate on these borrowings was 2.96%. As at December 31, 2007, total borrowings under the Company's commercial paper program were \$122 million, of which \$114 million was denominated in Canadian dollars and \$8 million was denominated in U.S. dollars (U.S.\$8 million). The weighted-average interest rate on these borrowings was 5.01%.

Accounts receivable securitization

The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest for maximum cash proceeds of \$600 million in a revolving pool of freight receivables to an unrelated trust. Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the retained interest as stipulated in the agreement.

As at June 30, 2008, the Company had sold receivables that resulted in proceeds of \$231 million under this program (\$588 million at December 31, 2007), and recorded retained interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded as at December 31, 2007). As at June 30, 2008, the servicing asset and liability were not significant.

Share repurchase programs

In the second quarter of 2008, under its 33.0 million share repurchase program, the Company repurchased 6.0 million common shares for \$323 million, at a weighted-average price of \$53.91 per share. As at June 30, 2008, the Company has ended this program, repurchasing a total of 31.0 million common shares since July 26, 2007, the inception of this program, for \$1,588 million, at a weighted-average price of \$51.22 per share.

On July 21, 2008, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 25.0 million common shares between July 28, 2008 and July 20, 2009 pursuant to a normal course issuer bid, at prevailing market prices or such other prices as may be permitted by the Toronto Stock Exchange.

Note 4 - Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the plans is provided in Note 12 – Stock plans, to the Company's 2007 Annual Consolidated Financial Statements. For the three and six months ended June 30, 2008, the Company recorded total compensation expense for awards under all plans of \$6 million and \$34 million, respectively, and \$44 million and \$73 million, respectively, for the same periods in 2007. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and six months ended June 30, 2008 was \$3 million and \$10 million, respectively, and \$13 million and \$21 million, respectively, for the same periods in 2007.

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

Cash settled awards

Following approval by the Board of Directors in January 2008, the Company granted 0.7 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted by the Company are generally scheduled for payout in cash after three years ("plan period") and vest upon the attainment of targets relating to return on invested capital over the plan period and the Company's share price during the last three months of the plan period. As at June 30, 2008, 0.1 million RSUs remained authorized for future issuance under this plan.

The following table provides the activity for all cash settled awards in 2008:

| In millions | RSUs | | Vision 2008 Share Unit Plan (Vision) | | Voluntary Incentive Deferral Plan (VIDP) | |
|----------------------------------|-----------|--------|---|--------|---|--------|
| | Nonvested | Vested | Nonvested | Vested | Nonvested | Vested |
| Outstanding at December 31, 2007 | 1.6 | 0.9 | 0.8 | - | 0.2 | 1.9 |
| Granted | 0.7 | - | - | - | - | - |
| Forfeited | (0.1) | - | - | - | - | - |
| Vested during period | - | - | - | - | (0.1) | 0.1 |
| Payout | - | (0.9) | - | - | - | (0.2) |
| Conversion into VIDP | - | - | - | - | - | - |
| Outstanding at June 30, 2008 | 2.2 | - | 0.8 | - | 0.1 | 1.8 |

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

The following table provides valuation and expense information for all cash settled awards:

| In millions, unless otherwise indicated | RSUs (1) | | | | | Vision | VIDP | Total |
|---|----------|----------|----------|-------|----------|----------|--------------|--------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | (1) | (2) | |
| Year of grant | 2008 | 2007 | 2006 | 2005 | 2004 | 2005 | 2003 onwards | |
| Stock-based compensation expense recognized over requisite service period | | | | | | | | |
| Six months ended June 30, 2008 | \$ 9 | \$ - | \$ 7 | N/A | \$ 2 | \$ 2 | \$ 6 | \$ 26 |
| Six months ended June 30, 2007 | N/A | \$ 13 | \$ 12 | \$ 12 | \$ 3 | \$ 7 | \$ 19 | \$ 66 |
| Liability outstanding | | | | | | | | |
| June 30, 2008 | \$ 9 | \$ 11 | \$ 36 | N/A | \$ 2 | \$ 10 | \$ 94 | \$ 162 |
| December 31, 2007 | N/A | \$ 11 | \$ 29 | \$ 48 | \$ 4 | \$ 8 | \$ 95 | \$ 195 |
| Fair value per unit | | | | | | | | |
| June 30, 2008 | \$ 29.63 | \$ 31.25 | \$ 41.63 | N/A | \$ 48.98 | \$ 15.90 | \$ 48.98 | N/A |
| Fair value of awards vested during period | | | | | | | | |
| Six months ended June 30, 2008 | \$ - | \$ - | \$ - | N/A | \$ - | \$ - | \$ 2 | \$ 2 |
| Six months ended June 30, 2007 | N/A | \$ - | \$ - | \$ - | \$ 5 | \$ - | \$ 3 | \$ 8 |
| Nonvested awards at June 30, 2008 | | | | | | | | |
| Unrecognized compensation cost | \$ 10 | \$ 4 | \$ 4 | N/A | \$ 2 | \$ 2 | \$ 4 | \$ 26 |
| Remaining recognition period (years) | 2.50 | 1.50 | 0.50 | N/A | 0.50 | 0.50 | 3.50 | N/A |
| Assumptions (3) | | | | | | | | |
| Stock price (\$) | \$ 48.98 | \$ 48.98 | \$ 48.98 | N/A | \$ 48.98 | \$ 48.98 | \$ 48.98 | N/A |
| Expected stock price volatility (4) | 22% | 23% | 26% | N/A | N/A | 28% | N/A | N/A |
| Expected term (years) (5) | 2.50 | 1.50 | 0.50 | N/A | N/A | 0.50 | N/A | N/A |
| Risk-free interest rate (6) | 3.31% | 3.20% | 2.96% | N/A | N/A | 2.59% | N/A | N/A |
| Dividend rate (\$) (7) | \$ 0.92 | \$ 0.92 | \$ 0.92 | N/A | N/A | \$ 0.92 | N/A | N/A |

(1) Compensation cost is based on the fair value of the awards at period-end using the lattice-based valuation model that uses the assumptions as presented herein, except for time-vested RSUs.

(2) Compensation cost is based on intrinsic value.

(3) Assumptions used to determine fair value are at June 30, 2008.

(4) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.

(5) Represents the remaining period of time that awards are expected to be outstanding.

(6) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.

(7) Based on the annualized dividend rate.

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

Stock option awards

Following approval by the Board of Directors in January 2008, the Company granted 0.9 million conventional stock options to designated senior management employees. The stock option plan allows eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of grant. The options are exercisable during a period not exceeding 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At June 30, 2008, 13.5 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at June 30, 2008, including conventional, performance and performance-accelerated options, was 10.5 million, 0.3 million and 3.3 million, respectively.

The following table provides the activity of stock option awards in 2008. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on June 30, 2008 at the Company's closing stock price of \$48.98.

| | Number of options In millions | Weighted-average exercise price | Options outstanding | | Aggregate intrinsic value In millions |
|---|-------------------------------------|------------------------------------|--|----|---|
| | | | Weighted-average years to expiration | | |
| Outstanding at December 31, 2007 (1) | 14.7 | \$ 24.55 | | | |
| Granted | 0.9 | \$ 48.51 | | | |
| Forfeited | - | \$ - | | | |
| Exercised | (1.5) | \$ 17.44 | | | |
| Outstanding at June 30, 2008 (1) | 14.1 | \$ 27.01 | 4.7 | \$ | 311 |
| Exercisable at June 30, 2008 (1) | 11.7 | \$ 23.09 | 3.9 | \$ | 303 |

(1) Stock options with a U.S. dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

The following table provides valuation and expense information for all stock option awards:

In millions, unless otherwise indicated

| Year of grant | 2008 | 2007 | 2006 | 2005 | Total |
|---|----------|----------|----------|----------|-------|
| Stock-based compensation expense recognized over requisite service period (1) | | | | | |
| Six months ended June 30, 2008 | \$ 5 | \$ 1 | \$ 1 | \$ 1 | \$ 8 |
| Six months ended June 30, 2007 | N/A | \$ 5 | \$ 1 | \$ 1 | \$ 7 |
| Fair value per unit | | | | | |
| At grant date (\$) | \$ 12.44 | \$ 13.36 | \$ 13.80 | \$ 9.19 | N/A |
| Fair value of awards vested during period | | | | | |
| Six months ended June 30, 2008 | \$ - | \$ 3 | \$ 3 | \$ 3 | \$ 9 |
| Six months ended June 30, 2007 | N/A | \$ - | \$ 4 | \$ 3 | \$ 7 |
| Nonvested awards at June 30, 2008 | | | | | |
| Unrecognized compensation cost | \$ 6 | \$ 3 | \$ 2 | \$ 2 | \$ 13 |
| Remaining recognition period (years) | 3.6 | 2.6 | 1.6 | 0.6 | N/A |
| Assumptions (1) | | | | | |
| Grant price (\$) | \$ 48.51 | \$ 52.79 | \$ 51.51 | \$ 36.33 | N/A |
| Expected stock price volatility (2) | 27% | 24% | 25% | 25% | N/A |
| Expected term (years) (3) | 5.3 | 5.2 | 5.2 | 5.2 | N/A |
| Risk-free interest rate (4) | 3.58% | 4.12% | 4.04% | 3.50% | N/A |
| Dividend rate (\$ (5) | \$ 0.92 | \$ 0.84 | \$ 0.65 | \$ 0.50 | N/A |

- (1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.
- (2) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.
- (3) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.
- (4) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
- (5) Based on the annualized dividend rate.

Note 5 - Pensions and other postretirement benefits

For the three and six months ended June 30, 2008 and 2007, the components of net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

(a) Components of net periodic benefit cost (income) for pensions

| In millions | Three months ended | | Six months ended | |
|------------------------------------|--------------------|-------|------------------|-------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 35 | \$ 38 | \$ 70 | \$ 76 |
| Interest cost | 200 | 185 | 400 | 371 |
| Expected return on plan assets | (251) | (235) | (502) | (469) |
| Amortization of prior service cost | 5 | 5 | 10 | 10 |
| Recognized net actuarial loss | - | 14 | - | 27 |
| Net periodic benefit cost (income) | \$ (11) | \$ 7 | \$ (22) | \$ 15 |

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

(b) Components of net periodic benefit cost for other postretirement benefits

| In millions | Three months ended | | Six months ended | |
|------------------------------------|--------------------|------|------------------|------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 1 | \$ 1 | \$ 2 | \$ 2 |
| Interest cost | 4 | 3 | 8 | 7 |
| Curtailement gain | (1) | - | (3) | (3) |
| Amortization of prior service cost | 1 | 1 | 2 | 1 |
| Recognized net actuarial gain | (1) | (1) | (2) | (2) |
| Net periodic benefit cost | \$ 4 | \$ 4 | \$ 7 | \$ 5 |

In 2008, the Company expects to make total contributions of approximately \$120 million for all its defined benefit plans, of which \$53 million was disbursed as at June 30, 2008 and includes \$22 million relating to the 2007 funding year.

Note 6 - Major commitments and contingencies

A. Commitments

As at June 30, 2008, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$863 million (\$952 million at December 31, 2007). The Company also has agreements with fuel suppliers to purchase approximately 88% of the estimated remaining 2008 volume, 66% of its anticipated 2009 volume, and 31% of its anticipated 2010 volume, at market prices prevailing on the date of the purchase.

B. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including actions brought on behalf of various classes of claimants, and claims relating to personal injuries, occupational disease and damage to property.

Canada

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury. Accordingly, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

United States

Employee work-related injuries, including occupational disease claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA), which requires either the finding of fault through the U.S. jury system or individual settlements, and represent a major liability for the railroad industry. The Company follows an actuarial-based approach and accrues the expected cost for personal injury and property damage claims and asserted and unasserted occupational disease claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is conducted on an annual basis, in the fourth quarter, by an independent actuarial firm for

occupational disease claims, while an actuarial study is conducted on a semi-annual basis for non-occupational disease claims. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.

As at June 30, 2008, the Company had aggregate reserves for personal injury and other claims of \$450 million, of which \$104 million was recorded as a current liability (\$446 million, of which \$102 million was recorded as a current liability at December 31, 2007). Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
GAAP)

outcome with respect to actions outstanding or pending at June 30, 2008, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

C. Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the United States concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

The Company is subject to environmental clean-up and enforcement actions. In particular, the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, as well as similar state laws generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 23 sites governed by the Superfund law (and other similar federal and state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

- (i) the lack of specific technical information available with respect to many sites;
- (ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;
- (iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;
- (iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will

not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at June 30, 2008, the Company had aggregate accruals for environmental costs of \$108 million, of which \$28 million was recorded as a current liability (\$111 million, of which \$28 million was recorded as a current liability as at December 31, 2007).

D. Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business.

The Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
GAAP)

on the date the guarantee is issued or modified. In addition, where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized.

(i) Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2008 and 2019, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At June 30, 2008, the maximum exposure in respect of these guarantees was \$139 million. There are no recourse provisions to recover any amounts from third parties.

(ii) Other guarantees

The Company, including certain of its subsidiaries, has granted irrevocable standby letters of credit and surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at June 30, 2008, the maximum potential liability under these guarantees was \$485 million, of which \$406 million was for workers' compensation and other employee benefits and \$79 million was for equipment under leases and other. During 2008, the Company has granted guarantees for which no liability has been recorded, as they relate to the Company's future performance.

As at June 30, 2008, the Company had not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any additional payments associated with these guarantees. The majority of the guarantee instruments mature at various dates between 2008 and 2010.

(iii) General indemnifications

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to:

- (a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements;
- (b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements;
- (c) contracts for the sale of assets and securitization of accounts receivable;
- (d) contracts for the acquisition of services;
- (e) financing agreements;
- (f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors;
- (g) transfer agent and registrar agreements in respect of the Company's securities;
- (h) trust and other agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements;

- (i) pension transfer agreements;
- (j) master agreements with financial institutions governing derivative transactions; and
- (k) settlement agreements with insurance companies or other third parties whereby such insurer or third party has been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements.

To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be determined with certainty.

The Company has entered into various indemnification contracts with third parties for which the maximum exposure for future payments cannot be determined with certainty. As a result, the Company was unable to determine the fair value of these guarantees and accordingly, no liability was recorded. There are no recourse provisions to recover any amounts from third parties.

CANADIAN NATIONAL RAILWAY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S.
 GAAP)

Note 7 – Income taxes

In 2008, the Company recorded a deferred income tax recovery of \$34 million in the Consolidated Statement of Income, of which \$23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates and \$11 million, recorded in the first quarter, resulted from net capital losses arising from the reorganization of a subsidiary. In the second quarter of 2007, the Company recorded a deferred income tax recovery of \$30 million in the Consolidated Statement of Income, due to the enactment of a lower federal corporate income tax rate in Canada.

Note 8 – Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

| In millions, except per share data | Three months ended | | Six months ended | |
|---|--------------------|---------|------------------|---------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 459 | \$ 516 | \$ 770 | \$ 840 |
| Weighted-average shares outstanding | 476.4 | 505.2 | 479.6 | 507.7 |
| Effect of stock options | 5.6 | 7.1 | 5.7 | 7.4 |
| Weighted-average diluted shares outstanding | 482.0 | 512.3 | 485.3 | 515.1 |
| Basic earnings per share | \$ 0.96 | \$ 1.02 | \$ 1.61 | \$ 1.65 |
| Diluted earnings per share | \$ 0.95 | \$ 1.01 | \$ 1.59 | \$ 1.63 |

The weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, was 0.1 million for both the three and six months ended June 30, 2008, and nil and 0.1 million, respectively, for the corresponding periods in 2007.

CANADIAN NATIONAL RAILWAY COMPANY
SELECTED RAILROAD STATISTICS (1) (U.S. GAAP)

| | Three months ended | | Six months ended | |
|---|--------------------|--------|------------------|---------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Statistical operating data | | | | |
| Rail freight revenues (\$ millions) | 1,876 | 1,848 | 3,636 | 3,602 |
| Gross ton miles (GTM) (millions) | 87,287 | 88,344 | 171,614 | 170,085 |
| Revenue ton miles (RTM) (millions) | 45,264 | 46,423 | 90,223 | 90,516 |
| Carloads (thousands) | 1,188 | 1,204 | 2,320 | 2,335 |
| Route miles (includes Canada and the U.S.) | 20,421 | 20,219 | 20,421 | 20,219 |
| Employees (end of period) | 23,147 | 22,757 | 23,147 | 22,757 |
| Employees (average for the period) | 22,953 | 22,494 | 22,795 | 21,986 |
| Productivity | | | | |
| Operating ratio (%) | 66.3 | 60.0 | 69.4 | 65.1 |
| Rail freight revenue per RTM (cents) | 4.14 | 3.98 | 4.03 | 3.98 |
| Rail freight revenue per carload (\$) | 1,579 | 1,535 | 1,567 | 1,543 |
| Operating expenses per GTM (cents) | 1.59 | 1.38 | 1.63 | 1.51 |
| Labor and fringe benefits expense per GTM (cents) | 0.45 | 0.49 | 0.50 | 0.54 |
| GTM per average number of employees (thousands) | 3,803 | 3,927 | 7,529 | 7,736 |
| Diesel fuel consumed (U.S. gallons in millions) | 96 | 98 | 195 | 194 |
| Average fuel price (\$/U.S. gallon) | 3.82 | 2.30 | 3.41 | 2.24 |
| GTM per U.S. gallon of fuel consumed | 909 | 901 | 880 | 877 |
| Safety indicators | | | | |
| Injury frequency rate per 200,000 person hours (2) | 1.2 | 1.6 | 1.6 | 1.6 |
| Accident rate per million train miles (2) | 2.7 | 1.7 | 2.7 | 2.2 |
| Financial ratio | | | | |
| Debt to total capitalization ratio (% at end of period) | 39.0 | 36.2 | 39.0 | 36.2 |

(1) Includes data relating to companies acquired as of the date of acquisition.

(2) Based on Federal Railroad Administration (FRA) reporting criteria.

Certain statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY
SUPPLEMENTARY INFORMATION (U.S. GAAP)

| | Three months ended June 30 | | | Six months ended June 30 | | |
|------------------------------------|----------------------------|--------|----------------------------|--------------------------|--------|----------------------------|
| | 2008 (Unaudited) | 2007 | Variance Fav (Unfav) | 2008 | 2007 | Variance Fav (Unfav) |
| Revenues (millions of dollars) | | | | | | |
| Petroleum and chemicals | 322 | 300 | 7% | 641 | 603 | 6% |
| Metals and minerals | 239 | 225 | 6% | 444 | 423 | 5% |
| Forest products | 357 | 414 | (14%) | 687 | 824 | (17%) |
| Coal | 107 | 99 | 8% | 206 | 188 | 10% |
| Grain and fertilizers | 334 | 322 | 4% | 674 | 631 | 7% |
| Intermodal | 393 | 346 | 14% | 744 | 659 | 13% |
| Automotive | 124 | 142 | (13%) | 240 | 274 | (12%) |
| Other revenues | 222 | 179 | 24% | 389 | 331 | 18% |
| | 2,098 | 2,027 | 4% | 4,025 | 3,933 | 2% |
| Revenue ton miles (millions) | | | | | | |
| Petroleum and chemicals | 7,970 | 8,049 | (1%) | 16,396 | 15,919 | 3% |
| Metals and minerals | 4,740 | 4,263 | 11% | 8,831 | 8,113 | 9% |
| Forest products | 8,826 | 10,526 | (16%) | 17,284 | 20,631 | (16%) |
| Coal | 3,638 | 3,744 | (3%) | 7,030 | 6,844 | 3% |
| Grain and fertilizers | 10,707 | 10,780 | (1%) | 22,536 | 21,568 | 4% |
| Intermodal | 8,666 | 8,184 | 6% | 16,755 | 15,775 | 6% |
| Automotive | 717 | 877 | (18%) | 1,391 | 1,666 | (17%) |
| | 45,264 | 46,423 | (2%) | 90,223 | 90,516 | - |
| Rail freight revenue / RTM (cents) | | | | | | |
| Total rail freight revenue per RTM | 4.14 | 3.98 | 4% | 4.03 | 3.98 | 1% |
| Commodity groups: | | | | | | |
| Petroleum and chemicals | 4.04 | 3.73 | 8% | 3.91 | 3.79 | 3% |
| Metals and minerals | 5.04 | 5.28 | (5%) | 5.03 | 5.21 | (3%) |
| Forest products | 4.04 | 3.93 | 3% | 3.97 | 3.99 | (1%) |
| Coal | 2.94 | 2.64 | 11% | 2.93 | 2.75 | 7% |
| Grain and fertilizers | 3.12 | 2.99 | 4% | 2.99 | 2.93 | 2% |
| Intermodal | 4.53 | 4.23 | 7% | 4.44 | 4.18 | 6% |
| Automotive | 17.29 | 16.19 | 7% | 17.25 | 16.45 | 5% |
| Carloads (thousands) | | | | | | |
| Petroleum and chemicals | 140 | 149 | (6%) | 285 | 295 | (3%) |
| Metals and minerals | 272 | 261 | 4% | 510 | 492 | 4% |
| Forest products | 136 | 151 | (10%) | 263 | 303 | (13%) |
| Coal | 90 | 95 | (5%) | 177 | 185 | (4%) |
| Grain and fertilizers | 148 | 146 | 1% | 299 | 287 | 4% |
| Intermodal | 348 | 330 | 5% | 675 | 635 | 6% |
| Automotive | 54 | 72 | (25%) | 111 | 138 | (20%) |
| | 1,188 | 1,204 | (1%) | 2,320 | 2,335 | (1%) |

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| | | | | | | |
|--|-------|-------|------|-------|-------|------|
| Rail freight revenue / carload (dollars) | | | | | | |
| Total rail freight revenue per carload | 1,579 | 1,535 | 3% | 1,567 | 1,543 | 2% |
| Commodity groups: | | | | | | |
| Petroleum and chemicals | 2,300 | 2,013 | 14% | 2,249 | 2,044 | 10% |
| Metals and minerals | 879 | 862 | 2% | 871 | 860 | 1% |
| Forest products | 2,625 | 2,742 | (4%) | 2,612 | 2,719 | (4%) |
| Coal | 1,189 | 1,042 | 14% | 1,164 | 1,016 | 15% |
| Grain and fertilizers | 2,257 | 2,205 | 2% | 2,254 | 2,199 | 3% |
| Intermodal | 1,129 | 1,048 | 8% | 1,102 | 1,038 | 6% |
| Automotive | 2,296 | 1,972 | 16% | 2,162 | 1,986 | 9% |

Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURE - unaudited

Free cash flow

The Company generated \$164 million and \$225 million of free cash flow for the three and six months ended June 30, 2008, compared to \$227 million and \$51 million of free cash flow for the same periods in 2007. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the accounts receivable securitization program and changes in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities and the payment of dividends, calculated as follows:

| In millions | Three months ended | | Six months ended | |
|--|--------------------|--------|------------------|----------|
| | June 30 | | June 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Cash provided from operating activities | \$ 409 | \$ 766 | \$ 574 | \$ 1,029 |
| Cash used by investing activities | (343) | (342) | (509) | (535) |
| Cash provided before financing activities | 66 | 424 | 65 | 494 |
| Adjustments: | | | | |
| Change in accounts receivable securitization | 209 | (65) | 372 | (204) |
| Dividends paid | (109) | (105) | (220) | (212) |
| Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents | (2) | (27) | 8 | (27) |
| Free cash flow | \$ 164 | \$ 227 | \$ 225 | \$ 51 |

CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Management's discussion and analysis (MD&A) relates to the financial condition and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or "the Company." Canadian National Railway Company's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company's objective is to provide meaningful and relevant information reflecting the Company's financial condition and results of operations. In certain instances, the Company may make reference to certain non-GAAP measures that, from management's perspective, are useful measures of performance. The reader is advised to read all information provided in the MD&A in conjunction with the Company's 2008 unaudited Interim Consolidated Financial Statements and Notes thereto, as well as the 2007 Annual MD&A.

Business profile

CN is engaged in the rail and related transportation business. CN's network of approximately 20,400 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network, in addition to co-production arrangements, routing protocols, marketing alliances, and interline agreements, provide CN customers access to all three North American Free Trade Agreement (NAFTA) nations.

CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. In 2007, no individual commodity group accounted for more than 20% of revenues. From a geographic standpoint, 19% of revenues came from United States (U.S.) domestic traffic, 32% from transborder traffic, 23% from Canadian domestic traffic and 26% from overseas traffic. The Company originates approximately 87% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Corporate organization

The Company manages its rail operations in Canada and the United States as one business segment. Financial information reported at this level, such as revenues, operating income and cash flow from operations, is used by the Company's corporate management in evaluating financial and operational performance and allocating resources across CN's network. The Company's strategic initiatives, which drive its operational direction, are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region), whose role is to manage the day-to-day service requirements of their respective territories, control direct costs incurred locally, and execute the corporate strategy and operating plan established by corporate management.

See Note 16 – Segmented information, to the Company's 2007 Annual Consolidated Financial Statements for additional information on the Company's corporate organization, as well as selected financial information by geographic area.

Strategy overview

CN's focus is on running a safe and efficient railroad. While remaining at the forefront of the rail industry, CN's goal is to be internationally regarded as one of the best-performing transportation companies.

CN's commitment is to create value for both its customers and shareholders. By providing quality and cost-effective service, CN seeks to create value for its customers. By striving for sustainable financial performance through profitable growth, solid free cash flow and a high return on investment, CN seeks to deliver increased shareholder value.

CN has a unique business model, which is anchored on five key principles: providing quality service, controlling costs, focusing on asset utilization, committing to safety, and developing people. "Precision railroading" is at the core of CN's business model. It is a highly disciplined process whereby CN handles individual rail shipments according to a specific trip plan and manages all aspects of railroad operations to meet customer commitments efficiently and profitably.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Precision railroading demands discipline to execute the trip plan, the relentless measurement of results, and the use of such results to generate further execution improvements. Precision railroading increases velocity, improves reliability, lowers costs, enhances asset utilization and, ultimately, helps the Company to grow the top line. It has been a key contributor to CN's earnings growth and improved return.

The Company sees long-term opportunities to grow the business and further improve productivity. In Intermodal, the Prince Rupert Intermodal Terminal, which opened in the fourth quarter of 2007, will allow CN to leverage the potential of the container trade between Asia and North America. In Bulk, the Company expects to continue to benefit from increased resource demand, particularly as it relates to coal mine expansions and to global demand for potash. In Merchandise, the Company sees growth potential for a number of commodities, particularly pipes, machinery and equipment, condensate and other commodities associated with oil and gas development in western Canada.

In the short-term, the Company believes the U.S. economy is currently experiencing recessionary conditions, but assumes that it will recover within the next six to nine months, and that the global economy will grow at a moderate pace throughout this period. In addition, the Company's assumption is that the risks outlined in the Business risks section of this MD&A will not result in a material impact on its financial statements.

The Company, on an ongoing basis, also invests in various strategic initiatives to expand the scope of its business. Some of these recent initiatives include the proposed acquisition of the Elgin, Joliet and Eastern Railway Company (EJ&E), which is pending approval by the U.S. Surface Transportation Board (STB); the acquisition of short lines in Alberta to help oil sands operators meet growing demand for energy; the development of CN WorldWide International, the Company's international freight-forwarding subsidiary, with offices in Europe, China and the Americas; and the formation of CN WorldWide North America, a new operating entity, to manage and expand the scope and scale of the Company's existing non-rail capabilities such as warehousing and distribution, customs services, truck brokerage and supply chain visibility tools across North America.

The opportunities to further improve productivity extend across all functions in the organization. In Transportation, the Company is aiming to continue to increase productivity on the track and in the yards. Train productivity is being improved through the use of "distributed power" equipped locomotives, which allows the Company to run longer, heavier trains, including in cold weather conditions, while improving train handling, reducing train separations and ensuring the overall safety of operations. This initiative, combined with CN's investments in longer sidings, can offer train-mile savings, allow for long-train operations and reduce wear on rail and wheels. Yard throughput is being improved through SmartYard, an innovative use of real-time traffic information to sequence cars effectively and get them out on the line more quickly in the face of constantly changing conditions. In Engineering, the Company is continuously working to increase the productivity of its field forces, through better use of traffic information and the optimization of work scheduling, and as a result, better management of its engineering forces on the track. The Company also intends to maintain a solid focus on reducing accidents and related costs, as well as costs for legal claims and health care.

CN's capital programs support the Company's commitment to the five key principles and its ability to grow the business profitably. In 2008, CN plans to invest approximately \$1.5 billion on capital programs, of which over \$1 billion is targeted towards track infrastructure to maintain a safe railway and to improve the productivity and fluidity of the network, and includes the replacement of rail, ties, and other track materials, bridge improvements, as well as upgrades to the recently acquired rail assets of the Athabasca Northern Railway (ANY). This amount also includes funds for strategic initiatives, such as siding extensions to accommodate container traffic from the Prince Rupert Intermodal Terminal, the upgrade of the Company's freight car classification yard in Memphis, Tennessee, and

additional enhancements to the track infrastructure in western Canada to take advantage of growth prospects in North American trade with Asia and in western Canada.

CN's equipment spending, targeted to reach approximately \$140 million in 2008, is intended to develop growth opportunities and to improve the quality of the fleet to meet customer requirements. This amount includes the acquisition of new fuel-efficient locomotives, as well as improvements to the existing fleet. CN also expects to spend more than \$300 million on facilities to grow the business, including transloads and distribution centers; on information technology to improve service and operating efficiency; and on other projects to increase productivity.

The Company's commitment to safety is reflected in the wide range of initiatives that CN is pursuing and the size of its capital programs. Comprehensive plans are in place to address safety, security, employee well-being and environmental management. CN's Integrated Safety Plan is the framework for putting safety at the center of its day-to-day operations. This proactive plan is designed to minimize risk and drive continuous improvement in the reduction of injuries and accidents, is fully supported by senior management, and engages employees at all levels of the organization.

Environmental protection is also an integral part of CN's day-to-day activities. A combination of key resource people,

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

training, policies, monitoring and environmental assessments helps to ensure that the Company's operations comply with CN's Environmental Policy, a copy of which is available on CN's website.

CN's ability to develop the best railroaders in the industry has been a key contributor to the Company's success. CN recognizes that without the right people – no matter how good a service plan or business model a company may have – it will not be able to fully execute. The Company is focused on recruiting the right people, developing employees with the right skills, motivating them to do the right thing, and training them to be the future leaders of the Company.

The forward-looking statements provided in the above section and in other parts of this MD&A are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed or implied in such statements and are based on certain factors and assumptions which the Company considers reasonable, about events, developments, prospects and opportunities that may not materialize or that may be offset entirely or partially by other events and developments. See the Business risks section of this MD&A for assumptions and risk factors affecting such forward-looking statements.

Financial and statistical highlights

| \$ in millions, except per share data, or unless otherwise indicated | Three months ended | | Six months ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30 | June 30 | June 30 | June 30 |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Financial results | | | | |
| Revenues | \$ 2,098 | \$ 2,027 | \$ 4,025 | \$ 3,933 |
| Operating income | \$ 707 | \$ 811 | \$ 1,230 | \$ 1,372 |
| Net income (a) | \$ 459 | \$ 516 | \$ 770 | \$ 840 |
| | | | | |
| Operating ratio | 66.3% | 60.0% | 69.4% | 65.1% |
| | | | | |
| Basic earnings per share (a) | \$ 0.96 | \$ 1.02 | \$ 1.61 | \$ 1.65 |
| Diluted earnings per share (a) | \$ 0.95 | \$ 1.01 | \$ 1.59 | \$ 1.63 |
| | | | | |
| Dividend declared per share | \$ 0.23 | \$ 0.21 | \$ 0.46 | \$ 0.42 |
| | | | | |
| Financial position | | | | |
| Total assets | \$ 24,353 | \$ 23,167 | \$ 24,353 | \$ 23,167 |
| Total long-term financial liabilities | \$ 12,870 | \$ 11,521 | \$ 12,870 | \$ 11,521 |
| | | | | |
| Statistical operating data and productivity measures (b) | | | | |
| Employees (average for the period) | 22,953 | 22,494 | 22,795 | 21,986 |
| Gross ton miles (GTM) per average number of employees (thousands) | 3,803 | 3,927 | 7,529 | 7,736 |
| GTMs per U.S. gallon of fuel consumed | 909 | 901 | 880 | 877 |

(a) The three and six months ended June 30, 2008 figures include a deferred income tax recovery of \$23 million (\$0.05 per basic or diluted share) and \$34 million (\$0.07 per basic or diluted share), respectively. The three and six months ended June 30, 2007 figures include a deferred income tax recovery of \$30 million (\$0.06 per basic or diluted share). The deferred income tax recoveries result mainly from the enactment of lower corporate income tax

rates in Canada as further discussed herein.

- (b) Based on estimated data available at such time and subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Financial results

Second quarter and first half of 2008 compared to corresponding periods in 2007

Second quarter 2008 net income decreased by \$57 million, or 11%, to \$459 million, when compared to the same period in 2007, with diluted earnings per share decreasing 6% to \$0.95.

Revenues for the second quarter of 2008 increased by \$71 million, or 4%, to \$2,098 million, when compared to the same period in 2007, mainly due to freight rate increases and increased volumes in specific commodity groups, particularly intermodal and metals and minerals. Partly offsetting these factors were the translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues and weakness in specific markets, particularly forest products and automotive.

Operating expenses for the three months ended June 30, 2008 increased by \$175 million, or 14%, to \$1,391 million, mainly due to increases in fuel costs, purchased services and material and casualty and other expenses, which were partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses and lower labor and fringe benefits expense.

The operating ratio, defined as operating expenses as a percentage of revenues, was 66.3% in the current quarter compared to 60.0% in the second quarter of 2007, a 6.3-point increase.

Net income for the six months ended June 30, 2008 was \$770 million, a decrease of \$70 million, or 8%, when compared to the same period in 2007, with diluted earnings per share decreasing 2% to \$1.59.

Revenues for the first half of 2008 increased by \$92 million, or 2%, to \$4,025 million, mainly due to freight rate increases and increased volumes in specific commodity groups, including intermodal and metals and minerals. The increased volumes reflect the negative impact of the United Transportation Union (UTU) strike on first quarter 2007 volumes that was partially offset by the impact of harsh weather conditions experienced in Canada and the U.S. Midwest during the first quarter of 2008. Partly offsetting the gains were the translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues and weakness in specific markets, particularly forest products and automotive.

For the first half of 2008, operating expenses increased by \$234 million, or 9%, to \$2,795 million, mainly due to increases in fuel costs, purchased services and material and casualty and other expenses, which were partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses and lower labor and fringe benefits expense.

The six-month operating ratio was 69.4% in 2008, compared to 65.1% in 2007, a 4.3-point increase.

The Company's results of operations in 2008 were affected by significant weakness in certain markets due to current economic conditions and severe weather conditions in the first quarter. The Company's results in 2007 included the impact of a strike by 2,800 members of the UTU in Canada for which the Company estimated the negative impact on first-quarter 2007 operating income and net income to be approximately \$50 million and \$35 million, respectively (\$0.07 per basic or diluted share). Continued reductions to corporate income tax rates in Canada have resulted in the Company recording deferred income tax recoveries in the second quarters of 2008 and 2007 of \$23 million (\$0.05 per basic or diluted share) and \$30 million (\$0.06 per basic or diluted share), respectively. The first half of 2008 also

includes a deferred income tax recovery of \$11 million (\$0.02 per basic or diluted share) resulting from net capital losses arising from the reorganization of a subsidiary.

Foreign exchange fluctuations have also had an impact on the comparability of the results of operations. The strengthening of the Canadian dollar relative to the U.S. dollar, which affected the conversion of the Company's U.S. dollar-denominated revenues and expenses, has resulted in a reduction to net income of approximately \$25 million (\$0.05 per basic or diluted share) in the second quarter, and approximately \$55 million (\$0.11 per basic or diluted share) in the first six months of 2008.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Revenues

| In millions, unless otherwise indicated | Three months ended June 30 | | | Six months ended June 30 | | |
|--|----------------------------|----------|----------|--------------------------|----------|----------|
| | 2008 (Unaudited) | 2007 | % Change | 2008 | 2007 | % Change |
| Rail freight revenues | \$ 1,876 | \$ 1,848 | 2% | \$ 3,636 | \$ 3,602 | 1% |
| Other revenues | 222 | 179 | 24% | 389 | 331 | 18% |
| Total revenues | \$ 2,098 | \$ 2,027 | 4% | \$ 4,025 | \$ 3,933 | 2% |
| Rail freight revenues: | | | | | | |
| Petroleum and chemicals | \$ 322 | \$ 300 | 7% | \$ 641 | \$ 603 | 6% |
| Metals and minerals | 239 | 225 | 6% | 444 | 423 | 5% |
| Forest products | 357 | 414 | (14%) | 687 | 824 | (17%) |
| Coal | 107 | 99 | 8% | 206 | 188 | 10% |
| Grain and fertilizers | 334 | 322 | 4% | 674 | 631 | 7% |
| Intermodal | 393 | 346 | 14% | 744 | 659 | 13% |
| Automotive | 124 | 142 | (13%) | 240 | 274 | (12%) |
| Total rail freight revenues | \$ 1,876 | \$ 1,848 | 2% | \$ 3,636 | \$ 3,602 | 1% |
| Revenue ton miles (RTM) (millions) | 45,264 | 46,423 | (2%) | 90,223 | 90,516 | - |
| Rail freight revenue/RTM (cents) | 4.14 | 3.98 | 4% | 4.03 | 3.98 | 1% |

Revenues for the quarter ended June 30, 2008 totaled \$2,098 million compared to \$2,027 million in the same period in 2007, an increase of \$71 million, or 4%. Revenues for the first half of 2008 were \$4,025 million, an increase of \$92 million, or 2%, when compared to the same period in 2007. The increases in the second quarter and first half of 2008 were mainly due to freight rate increases of \$175 million for the second quarter and \$320 million for the first half of 2008, of which approximately two-thirds was due to a higher fuel surcharge as a result of year-over-year increases in applicable fuel prices; and increased volumes in specific commodity groups, particularly intermodal and metals and minerals. The increased volumes in the first half of 2008 reflect the negative impact of the UTU strike on first-quarter 2007 volumes that was partially offset by the impact of harsh weather conditions experienced in Canada and the U.S. Midwest during the first quarter of 2008. Partly offsetting the gains were the translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues of \$90 million for the second quarter and \$240 million for the first half of 2008, and weakness in specific markets, particularly forest products and automotive.

Revenue ton miles (RTM), measuring the relative weight and distance of rail freight transported by the Company, decreased by 2% in the second quarter of 2008 and was relatively flat for the first half of 2008 when compared to the same periods in 2007. For the second quarter and first half of 2008, rail freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 4% and 1%, respectively, when compared to the same periods in 2007, mainly due to freight rate increases that were partially offset by the translation impact of the stronger Canadian dollar.

Petroleum and chemicals

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 322 | \$ 300 | 7% | \$ 641 | \$ 603 | 6% |
| RTMs (millions) | 7,970 | 8,049 | (1%) | 16,396 | 15,919 | 3% |
| Revenue/RTM (cents) | 4.04 | 3.73 | 8% | 3.91 | 3.79 | 3% |

Petroleum and chemicals comprises a wide range of commodities, including chemicals, sulfur, plastics, petroleum products and liquefied petroleum gas (LPG) products. The primary markets for these commodities are within North America, and as such, the performance of this commodity group is closely correlated with the North American economy. Most of the Company's petroleum and chemicals shipments originate in the Louisiana petrochemical corridor between New Orleans and Baton Rouge; in northern Alberta, which is a major center for natural gas feedstock and world scale petrochemicals and plastics; and in

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

eastern Canadian regional plants. These shipments are destined for customers in Canada, the United States and overseas. Revenues for this commodity group increased by \$22 million, or 7%, for the second quarter and \$38 million, or 6%, for the first six months of 2008 when compared to the same periods in 2007. The increases in both the second quarter and first half of 2008 were largely due to freight rate increases; new condensate opportunities into western Canada; strong sulfur shipments, due to high fertilizer demand; and continued growth in biodiesel shipments, due to expanding markets. These gains were partly offset by the translation impact of the stronger Canadian dollar; and reduced plastic feedstock and pellet shipments due to lower demand, loss of some short-haul traffic and a customer plant closure in eastern Canada. Revenue per revenue ton mile increased by 8% in the second quarter and 3% in the first half of 2008, mainly due to freight rate increases that were partially offset by the translation impact of the stronger Canadian dollar and an increase in the average length of haul.

Metals and minerals

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 239 | \$ 225 | 6% | \$ 444 | \$ 423 | 5% |
| RTMs (millions) | 4,740 | 4,263 | 11% | 8,831 | 8,113 | 9% |
| Revenue/RTM (cents) | 5.04 | 5.28 | (5%) | 5.03 | 5.21 | (3%) |

The metals and minerals commodity group consists primarily of nonferrous base metals, concentrates, iron ore, steel, construction materials, machinery and dimensional (large) loads. The Company provides unique rail access to aluminum, mining, steel and iron ore producing regions, which are among the most important in North America. This access, coupled with the Company's transload and port facilities, has made CN a leader in the transportation of copper, lead, zinc, concentrates, iron ore, refined metals and aluminum. Mining, oil and gas development and non-residential construction are the key drivers for metals and minerals. Revenues for this commodity group increased by \$14 million, or 6%, for the second quarter and \$21 million, or 5%, for the first six months of 2008 when compared to the same periods in 2007. The increases in both the second quarter and first half of 2008 were mainly due to freight rate increases; strong flat rolled and steel slab shipments as the Company was able to take advantage of new distribution patterns in eastern Canada and the U.S. Midwest; strong shipments of iron ore and scrap iron due to higher steel production in Canada and the U.S.; and increased volumes of long steel products, and machinery and dimensional loads to western Canada. Partly offsetting these gains were the translation impact of the stronger Canadian dollar and lower demand for construction materials due to the decline in U.S. housing activity. Revenue per revenue ton mile decreased by 5% in the second quarter and 3% in the first half of 2008, mainly due to the translation impact of the stronger Canadian dollar and an increase in the average length of haul that were partly offset by freight rate increases.

Forest products

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 357 | \$ 414 | (14%) | \$ 687 | \$ 824 | (17%) |
| RTMs (millions) | 8,826 | 10,526 | (16%) | 17,284 | 20,631 | (16%) |
| Revenue/RTM (cents) | 4.04 | 3.93 | 3% | 3.97 | 3.99 | (1%) |

The forest products commodity group includes various types of lumber, panels, paper, wood pulp and other fibers such as logs, recycled paper and wood chips. The Company has superior rail access to the western and eastern Canadian fiber-producing regions, which are among the largest fiber source areas in North America. In the United

States, the Company is strategically located to serve both the Midwest and southern U.S. corridors with interline connections to other Class I railroads. The key drivers for the various commodities are: for newsprint, advertising lineage, non-print media and overall economic conditions, primarily in the United States; for fibers (mainly wood pulp), the consumption of paper in North American and offshore markets; and for lumber and panels, housing starts and renovation activities in the United States. Although demand for forest products can be cyclical, the Company's geographical advantages, unique access and product diversity tend to reduce the overall impact of market fluctuations. Revenues for this commodity group decreased by \$57 million, or 14%, for the second quarter and \$137 million, or 17%, for the first six months of 2008 when compared to the same periods in 2007. The decreases in the second

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

quarter and first half of 2008 were mainly due to reduced shipments of lumber and panel products, as a result of the decline in U.S. housing activity which resulted in customer mill closures and production curtailments, and the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 3% in the second quarter and decreased by 1% for the first half of 2008, mainly due to freight rate increases that were partially offset in the second quarter, and more than offset in the first half by the translation impact of the stronger Canadian dollar.

Coal

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|-------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 107 | \$ 99 | 8% | \$ 206 | \$ 188 | 10% |
| RTMs (millions) | 3,638 | 3,744 | (3%) | 7,030 | 6,844 | 3% |
| Revenue/RTM (cents) | 2.94 | 2.64 | 11% | 2.93 | 2.75 | 7% |

The coal commodity group consists primarily of thermal grades of bituminous coal. Canadian thermal coal is delivered to power utilities primarily in eastern Canada; while in the United States, thermal coal is transported from mines served in southern Illinois, or from western U.S. mines via interchange with other railroads, to major utilities in the Midwest and southeast United States. The coal business also includes the transport of Canadian metallurgical coal, which is largely exported via terminals on the west coast of Canada to steel producers. Revenues for this commodity group increased by \$8 million, or 8%, for the second quarter and \$18 million, or 10%, for the first six months of 2008 when compared to the same periods in 2007. The increases in the second quarter and first half of 2008 were largely due to freight rate increases; increased shipments of U.S. coal due to the startup of a new mine operation; and strong production of petroleum coke from Alberta. Partly offsetting these gains were decreased volumes due to production issues at several customers, particularly in the second quarter of 2008, and the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 11% in the second quarter and 7% in the first half of 2008, largely due to freight rate increases and a positive change in traffic mix that were partly offset by the translation impact of the stronger Canadian dollar.

Grain and fertilizers

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 334 | \$ 322 | 4% | \$ 674 | \$ 631 | 7% |
| RTMs (millions) | 10,707 | 10,780 | (1%) | 22,536 | 21,568 | 4% |
| Revenue/RTM (cents) | 3.12 | 2.99 | 4% | 2.99 | 2.93 | 2% |

The grain and fertilizers commodity group depends primarily on crops grown and fertilizers processed in western Canada and the U.S. Midwest. The grain segment consists of three primary segments: food grains (mainly wheat, oats and malting barley), feed grains (including feed barley, feed wheat, and corn), and oilseeds and oilseed products (primarily canola seed, oil and meal, and soybeans). Production of grain varies considerably from year to year, affected primarily by weather conditions, seeded and harvested acreage, the mix of grains produced and crop yields. Grain exports are sensitive to the size and quality of the crop produced, international market conditions and foreign government policy. The majority of grain produced in western Canada and moved by CN is exported via the ports of Vancouver, Prince Rupert and Thunder Bay. Certain of these rail movements are subject to government regulation and to a "revenue cap," which effectively establishes a maximum revenue entitlement that railways can earn. In the U.S., grain grown in Illinois and Iowa is exported, as well as transported to domestic processing facilities and feed markets.

The Company also serves major producers of potash in Canada, as well as producers of ammonium nitrate, urea and other fertilizers across Canada and the U.S. Revenues for this commodity group increased by \$12 million, or 4%, for the second quarter and \$43 million, or 7%, for the first six months of 2008 when compared to the same periods in 2007. The increases in the second quarter and first half of 2008 were mainly due to freight rate increases; increased volumes of oilseed products due to strong demand; growth in several markets including Canadian barley and oats for export; and increased volumes of ethanol due to the development of new facilities and markets. Partly offsetting these gains were lower Canadian wheat exports due to a smaller crop size, the translation impact of the stronger Canadian dollar, and lower U.S. corn shipments

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

in the first quarter of 2008. Revenue per revenue ton mile increased by 4% in the second quarter and 2% in the first half of 2008, largely due to freight rate increases that were partly offset by the translation impact of the stronger Canadian dollar.

Intermodal

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 393 | \$ 346 | 14% | \$ 744 | \$ 659 | 13% |
| RTMs (millions) | 8,666 | 8,184 | 6% | 16,755 | 15,775 | 6% |
| Revenue/RTM (cents) | 4.53 | 4.23 | 7% | 4.44 | 4.18 | 6% |

The intermodal commodity group is comprised of two segments: domestic and international. The domestic segment transports consumer products and manufactured goods, operating through both retail and wholesale channels, within domestic Canada, domestic U.S., Mexico and transborder, while the international segment handles import and export container traffic, directly serving the major ports of Vancouver, Prince Rupert, Montreal, Halifax and New Orleans. The domestic segment is driven by consumer markets, with growth generally tied to the economy. The international segment is driven by North American economic and trade conditions. Revenues for this commodity group increased by \$47 million, or 14%, for the second quarter and \$85 million, or 13%, for the first six months of 2008 when compared to the same periods in 2007. The increases in the second quarter and first half of 2008 were mainly due to freight rate increases; higher volumes, both through the Port of Prince Rupert, which opened its Intermodal terminal in the fourth quarter of 2007, and through the Port of Vancouver, mainly due to larger vessel sizes; and higher Canadian retail and U.S. transborder traffic, due to increased market share. Partly offsetting these gains were lower volumes through the Port of Halifax as various customers rationalized their services; and the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 7% in the second quarter and 6% in the first half of 2008, mainly due to freight rate increases that were partly offset by the translation impact of the stronger Canadian dollar and an increase in the average length of haul.

Automotive

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenues (millions) | \$ 124 | \$ 142 | (13%) | \$ 240 | \$ 274 | (12%) |
| RTMs (millions) | 717 | 877 | (18%) | 1,391 | 1,666 | (17%) |
| Revenue/RTM (cents) | 17.29 | 16.19 | 7% | 17.25 | 16.45 | 5% |

The automotive commodity group moves both finished vehicles and parts throughout North America, providing rail access to all vehicle assembly plants in Canada; eight assembly plants in Michigan; and one in Mississippi. The Company also serves more than 20 vehicle distribution facilities in Canada and the U.S., as well as parts production facilities in Michigan and Ontario. CN's broad coverage enables it to consolidate full trainloads of automotive traffic for delivery to connecting railroads at key interchange points. The Company serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads. The Company's automotive revenues are closely correlated to automotive production and sales in North America. Revenues for this commodity group decreased by \$18 million, or 13%, for the second quarter and \$34 million, or 12%, for the first six months of 2008 when compared to the same periods in 2007. The decreases in the second quarter and first half of 2008 were mainly due to reduced volumes of finished vehicle and parts traffic resulting from the temporary curtailment in the operations

of a major CN-served customer because of labor issues and from lower motor vehicle sales in the U.S.; and the translation impact of the stronger Canadian dollar. These factors were partly offset by freight rate increases and higher finished vehicles traffic entering North America through CN-served ports. Revenue per revenue ton mile increased by 7% for the second quarter and 5% for the first half of 2008, largely due to freight rate increases that were partly offset by the translation impact of the stronger Canadian dollar and an increase in the average length of haul.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Other revenues

Other revenues include revenues from non-rail transportation services, interswitching, and maritime operations. Other revenues increased by \$43 million, or 24%, for the second quarter and \$58 million, or 18%, for the first six months of 2008, when compared to the same periods in 2007, mainly due to an increase in non-rail transportation services from CN WorldWide activities, and higher interswitching and optional service revenues. These gains were partly offset by the translation impact of the stronger Canadian dollar.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Operating expenses

In the second quarter of 2008, operating expenses amounted to \$1,391 million, compared to \$1,216 million in the same quarter of 2007. Operating expenses for the first half of 2008 were \$2,795 million, compared to \$2,561 million in the same period of 2007. The increases of \$175 million, or 14%, in the second quarter and \$234 million, or 9%, in the first half of 2008 were mainly due to increased fuel costs, purchased services and material and casualty and other expenses, which were partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses of approximately \$50 million in the second quarter and \$145 million in the first half of 2008, and lower labor and fringe benefits expense. The first-quarter 2007 UTU strike did not have a significant impact on total operating expenses for the first half of 2007.

| In millions | Three months ended June 30 | | | Six months ended June 30 | | | | | | |
|---------------------------------|----------------------------|----------|-------------|---------------------------|-------|----------|----------|---------------------------|-------|-------|
| | 2008 | 2007 | % Change | Percentage of revenues | | | | Percentage of revenues | | |
| | | | | 2008 | 2007 | 2008 | 2007 | % Change | 2008 | 2007 |
| | (Unaudited) | | | | | | | | | |
| Labor and fringe benefits | \$ 392 | \$ 430 | 9% | 18.7% | 21.2% | \$ 853 | \$ 915 | 7% | 21.2% | 23.3% |
| Purchased services and material | 283 | 263 | (8%) | 13.5% | 13.0% | 568 | 539 | (5%) | 14.1% | 13.7% |
| Fuel | 399 | 249 | (60%) | 19.0% | 12.3% | 709 | 468 | (51%) | 17.6% | 11.9% |
| Depreciation and amortization | 176 | 168 | (5%) | 8.4% | 8.3% | 351 | 339 | (4%) | 8.7% | 8.6% |
| Equipment rents | 60 | 62 | 3% | 2.8% | 3.1% | 124 | 128 | 3% | 3.1% | 3.2% |
| Casualty and other | 81 | 44 | (84%) | 3.9% | 2.1% | 190 | 172 | (10%) | 4.7% | 4.4% |
| Total operating expenses | \$ 1,391 | \$ 1,216 | (14%) | 66.3% | 60.0% | \$ 2,795 | \$ 2,561 | (9%) | 69.4% | 65.1% |

Labor and fringe benefits: Labor and fringe benefits expense includes wages, payroll taxes, and employee benefits such as incentive compensation, stock-based compensation, health and welfare, and pensions and other postretirement benefits. Certain incentive and stock-based compensation plans are based on financial and market performance targets and the related expense is recorded in relation to the attainment of such targets. Labor and fringe benefits expense decreased by \$38 million, or 9%, in the second quarter and \$62 million, or 7%, in the first half of 2008 when compared to the same periods in 2007. The decreases in both the three- and six-month periods were mainly due to the translation impact of the stronger Canadian dollar, lower stock-based compensation expense, particularly in the second quarter of 2008, and a reduction in net periodic benefit cost for pensions. Partly offsetting these factors was the impact of higher workforce levels and annual wage increases, particularly in the first quarter of 2008, as well as increased employee benefit expenses.

Purchased services and material: Purchased services and material expense primarily includes the costs of services purchased from outside contractors, materials used in the maintenance of the Company's track, facilities and equipment, transportation and lodging for train crew employees, utility costs and the net costs of operating facilities jointly used by the Company and other railroads. These expenses increased by \$20 million, or 8%, in the second quarter and \$29 million, or 5%, in the first half of 2008 when compared to the same periods in 2007. The increases in both the three- and six-month periods were mainly due to higher costs for third-party non-rail transportation services and higher repairs and maintenance expenses. Also affecting the six-month period were other costs incurred as a result

of the harsh weather conditions experienced in the first quarter of 2008. These factors were partly offset by the translation impact of the stronger Canadian dollar.

Fuel: Fuel expense includes the cost of fuel consumed by locomotives, intermodal equipment and other vehicles. These expenses increased by \$150 million, or 60%, in the second quarter and \$241 million, or 51%, in the first half of 2008 when compared to the same periods in 2007. The increases in both the three- and six-month periods were primarily due to an increase in the average price per U.S. gallon of fuel when compared to the same periods of 2007, which was partly offset by the translation impact of the stronger Canadian dollar.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Depreciation and amortization: Depreciation and amortization expense relates to the Company's rail operations. These expenses increased by \$8 million, or 5%, in the second quarter and \$12 million, or 4%, in the first half of 2008 when compared to the same periods in 2007. The increases in both the three- and six-month periods were mainly due to the impact of net capital additions and the adoption of new depreciation rates for various asset classes (see the Critical accounting policies section of this MD&A). These factors were partly offset by the translation impact of the stronger Canadian dollar.

Equipment rents: Equipment rents expense includes rental expense for the use of freight cars owned by other railroads or private companies and for the short- or long-term lease of freight cars, locomotives and intermodal equipment, net of rental income from other railroads for the use of the Company's cars and locomotives. These expenses decreased by \$2 million, or 3%, in the second quarter and \$4 million, or 3%, in the first half of 2008 when compared to the same periods in 2007. The decreases in both the three- and six-month periods were mainly due to the translation impact of the stronger Canadian dollar as well as lower lease expense. These factors were partly offset by increased car hire expense resulting from a slowdown in online velocity caused by the harsh weather conditions experienced in the first quarter of 2008, and new intermodal equipment online for the Prince Rupert terminal.

Casualty and other: Casualty and other expense includes expenses for personal injuries, environmental, freight and property damage, insurance, bad debt and operating taxes, as well as travel expenses. These expenses increased by \$37 million, or 84%, in the second quarter and \$18 million, or 10%, in the first half of 2008 when compared to the same periods in 2007. The increases in both the three- and six-month periods were primarily due to a higher expense for U.S. personal injury claims mainly as a result of a significant reduction in the accrual for such claims that was recorded in the second quarter of 2007 following the actuarial valuation. Partly offsetting this factor was the translation impact of the stronger Canadian dollar, lower accident costs, particularly in the second quarter, and lower legal settlements in the first quarter of 2008.

Other

Interest expense: Interest expense increased by \$2 million, or 2%, for the second quarter and remained flat for the first half of 2008 when compared to the same periods in 2007, mainly due to the impact of a higher average debt balance that was partially offset in the second quarter, and entirely offset in the first half of 2008, by the translation impact of the stronger Canadian dollar.

Other income: In the second quarter and first half of 2008, the Company recorded Other income of \$9 million and \$3 million, respectively, compared to \$1 million and \$5 million, respectively for the same periods in 2007. The increase of \$8 million in the second quarter was mainly due to higher income from other business activities and lower fees related to the accounts receivable securitization program. The decrease of \$2 million in the six-month period was mainly due to lower foreign exchange gains and lower investment income as a result of the disposal of the Company's investment in English Welsh and Scottish Railway (EWS) in the fourth quarter of 2007, which were partly offset by higher income from other business activities and lower fees related to the accounts receivable securitization program.

Income tax expense: The Company recorded income tax expense of \$170 million for the second quarter of 2008 compared to \$211 million for the same period in 2007. For the six-month period ended June 30, 2008, income tax expense was \$290 million compared to \$364 million for the same period in 2007. Included in the first half of 2008 was a deferred income tax recovery of \$34 million, of which \$23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates and \$11 million, recorded in the first quarter, resulted from net capital losses arising from the reorganization of a subsidiary. Included in both the second quarter and first

half of 2007 was a deferred income tax recovery of \$30 million, due to the enactment of a lower federal corporate income tax rate in Canada. Excluding the deferred income tax recoveries, the effective tax rate for the second quarter and first half of 2008 was 30.7% and 30.6%, respectively, and 33.1% and 32.7%, respectively, in 2007. The decreases were mainly due to continued reductions in corporate income tax rates in Canada.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Summary of quarterly financial data – unaudited

In millions, except per share data

| | 2008 | | 2007 | | | 2006 | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
| | Quarters | | Quarters | | | Quarters | | | |
| | Second | First | Fourth | Third | Second | First | Fourth | Third | |
| Revenues | \$ 2,098 | \$ 1,927 | \$ 1,941 | \$ 2,023 | \$ 2,027 | \$ 1,906 | \$ 2,000 | \$ 2,032 | |
| Operating income | \$ 707 | \$ 523 | \$ 736 | \$ 768 | \$ 811 | \$ 561 | \$ 756 | \$ 844 | |
| Net income | \$ 459 | \$ 311 | \$ 833 | \$ 485 | \$ 516 | \$ 324 | \$ 499 | \$ 497 | |
| Basic earnings per share | \$ 0.96 | \$ 0.64 | \$ 1.70 | \$ 0.97 | \$ 1.02 | \$ 0.64 | \$ 0.97 | \$ 0.95 | |
| Diluted earnings per share | \$ 0.95 | \$ 0.64 | \$ 1.68 | \$ 0.96 | \$ 1.01 | \$ 0.63 | \$ 0.95 | \$ 0.94 | |
| Dividend declared per share | \$ 0.2300 | \$ 0.2300 | \$ 0.2100 | \$ 0.2100 | \$ 0.2100 | \$ 0.2100 | \$ 0.1625 | \$ 0.1625 | |

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace. Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. The continued fluctuations in the Canadian dollar relative to the U.S. dollar have also affected the conversion of the Company's U.S. dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

The Company's quarterly results included items that impacted the quarter-over-quarter comparability of the results of operations as discussed below:

In millions, except per share data

| | 2008 | | 2007 | | | 2006 | | | |
|---|----------|-------|----------|-------|--------|----------|--------|-------|--|
| | Quarters | | Quarters | | | Quarters | | | |
| | Second | First | Fourth | Third | Second | First | Fourth | Third | |
| Deferred income tax recoveries (a) | \$ 23 | \$ 11 | \$ 284 | \$ 14 | \$ 30 | \$ - | \$ 27 | \$ - | |
| Gain on sale of Central Station Complex (after-tax) (b) | - | - | 64 | - | - | - | - | - | |
| Gain on sale of investment in EWS (after-tax) (c) | - | - | 41 | - | - | - | - | - | |
| UTU strike (after-tax) (d) | - | - | - | - | - | (35) | - | - | |
| | \$ 23 | \$ 11 | \$ 389 | \$ 14 | \$ 30 | \$ (35) | \$ 27 | \$ - | |

Impact on net
income

| | | | | | | | | | | | | | | | | |
|----------------------------|----|------|----|------|----|------|----|------|----|------|----|--------|----|------|----|---|
| Basic earnings per share | \$ | 0.05 | \$ | 0.02 | \$ | 0.79 | \$ | 0.03 | \$ | 0.06 | \$ | (0.07) | \$ | 0.05 | \$ | - |
| Diluted earnings per share | \$ | 0.05 | \$ | 0.02 | \$ | 0.78 | \$ | 0.03 | \$ | 0.06 | \$ | (0.07) | \$ | 0.05 | \$ | - |

- (a) Deferred income tax recoveries resulted mainly from the enactment of corporate income tax rate changes in Canada.
- (b) The Company sold its Central Station Complex in Montreal for proceeds of \$355 million before transaction costs. A gain of \$92 million (\$64 million after-tax) was recognized immediately in Other income (loss).
- (c) The Company sold its 32% ownership interest in EWS for cash proceeds of \$114 million, resulting in a gain on disposition of the investment of \$61 million (\$41 million after-tax), which was recorded in Other income (loss).
- (d) A strike by 2,800 members of the UTU impacted first-quarter 2007 operating income and net income by approximately \$50 million and \$35 million, respectively.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Liquidity and capital resources

The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its revolving credit facility, the issuance of debt and/or equity, and the sale of a portion of its accounts receivable through a securitization program. In addition, from time to time, the Company's liquidity requirements can be supplemented by the disposal of surplus properties and the monetization of assets.

Operating activities: Cash provided from operating activities for the three and six months ended June 30, 2008 was \$409 million and \$574 million, respectively, compared to \$766 million and \$1,029 million, respectively, for the same periods in 2007. Net cash receipts from customers and other were \$3,634 million for the six months ended June 30, 2008, a decrease of \$526 million when compared to the same period in 2007, mainly due to a decrease in the proceeds received under the Company's accounts receivable securitization program. Payments for employee services, suppliers and other expenses were \$2,554 million for the six months ended June 30, 2008, an increase of \$300 million when compared to the same period in 2007, principally due to higher payments for fuel and third-party non-rail transportation services. Payments for income taxes in the first half of 2008 were \$207 million, a decrease of \$398 million when compared to the same period in 2007, mainly due to a final payment for Canadian income taxes that was made in the first quarter of 2007, in respect of the 2006 fiscal year. Also consuming cash in the six-month period ending June 30, 2008 were payments for interest, workforce reductions and personal injury and other claims totaling \$246 million, compared to \$249 million for the same period in 2007. In the first half of 2008 and 2007, pension contributions were \$53 million, of which \$22 million related to the 2007 funding year, and \$23 million, respectively. There are currently no specific requirements relating to working capital other than in the normal course of business.

Investing activities: Cash used by investing activities in the three and six months ended June 30, 2008 amounted to \$343 million and \$509 million, respectively, compared to \$342 million and \$535 million, respectively, for the comparable periods in 2007. The Company's investing activities in the first half of 2008 included property additions of \$529 million, a decrease of \$18 million when compared to the same period in 2007. The following table details property additions for the three and six months ended June 30, 2008 and 2007:

| In millions | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------|----------------------------|--------|--------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Track and roadway | \$ 297 | \$ 274 | \$ 431 | \$ 421 |
| Rolling stock | 15 | 28 | 68 | 58 |
| Buildings | 13 | 15 | 17 | 21 |
| Information technology | 18 | 18 | 35 | 35 |
| Other | 9 | 11 | 22 | 20 |
| Gross property additions | 352 | 346 | 573 | 555 |
| Less: capital leases (a) | - | 2 | 44 | 8 |
| Property additions | \$ 352 | \$ 344 | \$ 529 | \$ 547 |

(a) During the three and six months ended June 30, 2008, the Company recorded nil and \$44 million, respectively, in assets it acquired through equipment leases (\$2 million and \$8 million in the three and six months ended June 30, 2007, respectively), for which an equivalent amount was recorded in debt.

On an ongoing basis, the Company invests in capital programs for the renewal of the basic plant, the acquisition of rolling stock and other investments to take advantage of growth opportunities and to improve the Company's productivity and the fluidity of its network. For 2008, the Company expects to invest approximately \$1.5 billion for its capital programs.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Free cash flow

The Company generated \$164 million and \$225 million of free cash flow for the three and six months ended June 30, 2008, compared to \$227 million and \$51 million of free cash flow for the same periods in 2007. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the accounts receivable securitization program and changes in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities and the payment of dividends, calculated as follows:

| In millions | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 2008 | June 30 2007 | 2008 | June 30 2007 |
| Cash provided from operating activities | \$ 409 | \$ 766 | \$ 574 | \$ 1,029 |
| Cash used by investing activities | (343) | (342) | (509) | (535) |
| Cash provided before financing activities | 66 | 424 | 65 | 494 |
| Adjustments: | | | | |
| Change in accounts receivable securitization | 209 | (65) | 372 | (204) |
| Dividends paid | (109) | (105) | (220) | (212) |
| Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents | (2) | (27) | 8 | (27) |
| Free cash flow | \$ 164 | \$ 227 | \$ 225 | \$ 51 |

Financing activities: Cash used by financing activities for the three and six months ended June 30, 2008 totaled \$237 million and \$222 million, respectively, compared to \$262 million and \$405 million, respectively, for the same periods in 2007. In April 2008, the Company repaid its U.S.\$150 million 6.63% Notes, which came to maturity, with cash on hand. In May 2008, the Company issued U.S.\$325 million (Cdn\$331 million) of 4.95% Notes due 2014 and U.S.\$325 million (Cdn\$331 million) of 5.55% Notes due 2018. The Company used the net proceeds of U.S.\$643 million to repay a portion of its commercial paper outstanding and reduce its accounts receivable securitization program. In 2008 and 2007, issuances and repayments of long-term debt related principally to the Company's commercial paper program.

Cash received from stock options exercised during the quarters ended June 30, 2008 and 2007 was \$14 million and \$35 million, respectively, and the related tax benefit realized upon exercise was \$2 million and \$6 million, respectively. Cash received from stock options exercised during the first half of 2008 and 2007 was \$26 million and \$48 million, respectively, and the related tax benefit realized upon exercise was \$8 million and \$11 million, respectively.

In the second quarter and first half of 2008, under its 33.0 million share repurchase program, the Company repurchased 6.0 million and 13.3 million common shares for \$323 million (weighted-average price of \$53.91 per share) and \$690 million (weighted-average price of \$51.91 per share), respectively. In the second quarter and first half of 2007, the Company repurchased 6.0 million and 12.5 million common shares for \$344 million (weighted-average price per share of \$57.33) and \$687 million (weighted-average price per share of \$54.93),

respectively.

The Company paid a quarterly dividend of \$0.23 per share amounting to \$109 million for the second quarter and \$220 million for the first six months of 2008, compared to \$105 million and \$212 million, respectively, at the rate of \$0.21 per share, for the same periods in 2007.

35

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Credit measures

Management believes that adjusted debt-to-total capitalization is a useful credit measure that aims to show the true leverage of the Company. Similarly, adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) is another useful credit measure because it reflects the Company's ability to service its debt. The Company excludes Other income (loss) in the calculation of EBITDA. However, since these measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies and, as such, should not be considered in isolation.

Adjusted debt-to-total capitalization ratio

| | June 30, | 2008 | 2007 |
|---|----------|-------|-------|
| Debt-to-total capitalization ratio (a) | | 39.0% | 36.2% |
| Add: Present value of operating lease commitments plus securitization financing (b) | | 3.2% | 4.2% |
| Adjusted debt-to-total capitalization ratio | | 42.2% | 40.4% |

Adjusted debt-to-adjusted EBITDA

| \$ in millions, unless otherwise indicated | Twelve months ended June 30, | 2008 | 2007 |
|---|------------------------------|-----------|-----------|
| Debt | \$ | 6,474 | \$ 5,559 |
| Add: Present value of operating lease commitments plus securitization financing (b) | | 907 | 1,089 |
| Adjusted debt | | 7,381 | 6,648 |
| Operating income | | 2,734 | 2,972 |
| Add: Depreciation and amortization | | 689 | 663 |
| EBITDA | | 3,423 | 3,635 |
| Add: Deemed interest on operating leases | | 40 | 30 |
| Adjusted EBITDA | \$ | 3,463 | \$ 3,665 |
| Adjusted debt-to-adjusted EBITDA | | 2.1 times | 1.8 times |

(a) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt divided by the sum of total debt plus total shareholders' equity.

(b) The operating lease commitments have been discounted using the Company's implicit interest rate for each of the periods presented.

The Company has access to various financing arrangements:

Revolving credit facility

The Company's U.S.\$1 billion revolving credit facility, expiring in October 2011, is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at June 30, 2008, the Company had letters of credit drawn on its revolving credit facility of \$179 million (\$57 million as at December 31, 2007).

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the U.S. dollar equivalent. Commercial paper debt is due within one year but is classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowings through subsequent issuances of commercial paper or drawing down on the long-term revolving credit facility. As at June 30, 2008, the Company had total borrowings of \$345 million, of which \$230 million was denominated in Canadian dollars and \$115 million was denominated in U.S. dollars (U.S.\$113 million). The weighted-average interest rate on these borrowings was 2.96%. As at December 31, 2007, the Company had total borrowings of \$122 million, of which \$114 million was denominated in Canadian dollars and \$8 million was denominated in U.S. dollars (U.S.\$8 million). The

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

weighted-average interest rate on these borrowings was 5.01%.

Shelf prospectus and registration statement

At June 30, 2008, the Company had U.S.\$1.85 billion available under its currently effective shelf prospectus and registration statement.

The Company's access to current and alternate sources of financing at competitive costs is dependent on its credit rating. The Company is not currently aware of any material adverse trend, event or condition that would significantly affect the Company's credit rating.

All forward-looking information provided in this section is subject to risks and uncertainties and is based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments. See the Business risks section of this MD&A for a discussion of assumptions and risk factors affecting such forward-looking statements.

Contractual obligations

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations for the following items as at June 30, 2008:

| In millions | Total | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 & thereafter |
|--|------------------|---------------|-----------------|---------------|-----------------|---------------|-------------------|
| Long-term debt obligations (a) | \$ 5,347 | \$ 1 | \$ 306 | \$ - | \$ 752 | \$ - | \$ 4,288 |
| Interest on long-term debt obligations | 5,725 | 152 | 313 | 300 | 297 | 264 | 4,399 |
| Capital lease obligations (b) | 1,616 | 65 | 167 | 105 | 170 | 80 | 1,029 |
| Operating lease obligations (c) | 839 | 79 | 135 | 114 | 90 | 72 | 349 |
| Purchase obligations (d) | 863 | 379 | 171 | 112 | 54 | 37 | 110 |
| Other long-term liabilities reflected on the balance sheet (e) | 946 | 37 | 63 | 57 | 47 | 45 | 697 |
| Total obligations | \$ 15,336 | \$ 713 | \$ 1,155 | \$ 688 | \$ 1,410 | \$ 498 | \$ 10,872 |

(a) Presented net of unamortized discounts, of which \$835 million relates to non-interest bearing Notes due in 2094, and excludes capital lease obligations of \$1,127 million which are included in "Capital lease obligations."

(b) Includes \$1,127 million of minimum lease payments and \$489 million of imputed interest at rates ranging from 3.0% to 7.9%.

(c) Includes minimum rental payments for operating leases having initial non-cancelable lease terms of one year or more. The Company also has operating lease agreements for its automotive fleet with minimum one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments

for such leases are approximately \$30 million and generally extend over five years.

(d) Includes commitments for railroad ties, rail, freight cars, locomotives and other equipment and services, and outstanding information technology service contracts and licenses.

(e) Includes expected payments for workers' compensation, workforce reductions, postretirement benefits other than pensions and environmental liabilities that have been classified as contractual settlement agreements.

For 2008 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures. The Company is not aware of any trends, events or conditions or expected fluctuations in liquidity that would create any deficiencies. See the Business risks section of this MD&A for a discussion of assumptions and risk factors affecting such forward-looking statement.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Agreement to acquire Elgin, Joliet and Eastern Railway Company

In September 2007, the Company entered into an agreement with the U.S. Steel Corporation (U.S. Steel) for the acquisition of the key operations of EJ&E for a purchase price of approximately U.S.\$300 million. Under the terms of the agreement, the Company will acquire substantially all of the railroad assets and equipment of EJ&E, except those that support the Gary Works site in northwest Indiana and the steelmaking operations of U.S. Steel. The acquisition will be financed by debt and cash on hand.

In accordance with the terms of the agreement, the Company's obligation to consummate the acquisition is subject to the Company having obtained from the STB a final, unappealable decision that approves the acquisition and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the acquisition to the Company.

On November 26, 2007, the STB accepted the Company's application to consider the acquisition as a minor transaction. The STB, however, is also requiring an Environmental Impact Statement (EIS) for the transaction, and it has indicated that its decision on the transaction will not be issued until the EIS process is completed. The Company has requested that the STB establish time limits for it to conclude its environmental review and issue a decision that would enable the transaction to close by late 2008. If the transaction is approved by the STB, the Company will account for the acquisition using the purchase method of accounting.

Off balance sheet arrangements

Accounts receivable securitization program

The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest for maximum cash proceeds of \$600 million in a revolving pool of freight receivables to an unrelated trust. Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the retained interest as stipulated in the agreement.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold. At June 30, 2008, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is generally limited to the receivables.

The Company accounted for the accounts receivable securitization program as a sale, because control over the transferred accounts receivable was relinquished. Due to the relatively short collection period and the high quality of the receivables sold, the fair value of the undivided interest transferred to the trust approximated the book value thereof.

The Company is subject to customary reporting requirements for which failure to perform could result in termination of the program. In addition, the trust is subject to customary credit rating requirements, which if not met, could also result in termination of the program. The Company monitors the reporting requirements and is currently not aware of any trends, events or conditions that could cause such termination.

The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use. Under the agreement, the Company may change the level of receivables sold at any time. In the event the program is terminated before its scheduled maturity, the Company expects to meet its future payment obligations through its various sources of financing, including its revolving credit facility and commercial paper

program, and/or access to capital markets.

At June 30, 2008, the Company had sold receivables that resulted in proceeds of \$231 million under the accounts receivable securitization program (\$588 million at December 31, 2007), and recorded the retained interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded at December 31, 2007).

38

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business.

The Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. In addition, where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized.

The nature of these guarantees or indemnifications, the maximum potential amount of future payments, the carrying amount of the liability, if any, and the nature of any recourse provisions are disclosed in Note 6 – Major commitments and contingencies, to the Company's unaudited Interim Consolidated Financial Statements.

Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the plans is provided in Note 12 – Stock plans, to the Company's 2007 Annual Consolidated Financial Statements. For the three and six months ended June 30, 2008, the Company recorded total compensation expense for awards under all stock-based compensation plans of \$6 million and \$34 million, respectively, and \$44 million and \$73 million, respectively, for the same periods in 2007. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and six months ended June 30, 2008, was \$3 million and \$10 million, respectively, and \$13 million and \$21 million, respectively, for the same periods in 2007. Additional disclosures are provided in Note 4 – Stock plans, to the Company's unaudited Interim Consolidated Financial Statements.

Financial instruments

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. At June 30, 2008, the Company did not have any derivative financial instruments outstanding. At June 30, 2008, Accumulated other comprehensive income (loss) included an unamortized gain of \$11 million, \$8 million after-tax (\$11 million, \$8 million after-tax at December 31, 2007) relating to treasury lock transactions settled in 2004.

Income taxes

Payments for income taxes

The Company is required to make scheduled installment payments as prescribed by the tax authorities. For the 2008 fiscal year, the Company expects to pay approximately \$450 million of taxes based on forecasted 2008 taxable income, of which \$207 million was paid in the first half of 2008 (\$605 million in the first half of 2007, which included \$367 million paid in respect of the 2006 fiscal year).

See the Business risks section of this MD&A for a discussion of assumptions and risk factors affecting such forward-looking statements.

Rate enactments

In the second quarter of 2008, the Company adjusted its deferred income tax liability due to the enactment of lower corporate income tax rates in the provinces of British Columbia and Manitoba. The Company recorded a deferred income tax recovery of \$23 million in the Consolidated Statement of Income. In the second quarter of 2007, the Company recorded a deferred income tax recovery of \$30 million in the Consolidated Statement of Income, resulting from the enactment of a lower federal corporate income tax rate in Canada.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Common stock

Share repurchase programs

In the second quarter of 2008, under its 33.0 million share repurchase program, the Company repurchased 6.0 million common shares for \$323 million, at a weighted-average price of \$53.91 per share. As at June 30, 2008, the Company has ended this program, repurchasing a total of 31.0 million common shares since July 26, 2007, the inception of this program, for \$1,588 million, at a weighted-average price of \$51.22 per share.

On July 21, 2008, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 25.0 million common shares between July 28, 2008 and July 20, 2009 pursuant to a normal course issuer bid, at prevailing market prices or such other prices as may be permitted by the Toronto Stock Exchange.

Outstanding share data

As at July 21, 2008, the Company had 473.4 million common shares outstanding.

Recent accounting pronouncement

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133," which prescribes disclosure requirements on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Comparative disclosures for earlier periods at initial adoption is encouraged, but not required.

Critical accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from these estimates. The Company's policies for personal injury and other claims, environmental claims, depreciation, pensions and other postretirement benefits, and income taxes, require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements and, as such, are considered to be critical. The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Company's results of operations and financial position for the past three years ended December 31, 2007, as well as the effect of changes to these estimates, can be found on pages 48 to 53 of the Company's 2007 Annual Report. Such discussions have not changed except as they relate to Depreciation as discussed herein.

In the first quarter of 2008, the Company finalized a depreciation study of its Canadian properties, plant and equipment held at December 31, 2007. As a result of the study, the Company adopted new depreciation rates for various classes of assets that resulted in a net increase in depreciation expense of approximately \$20 million on an annual basis, as calculated using the asset base on December 31, 2007.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

As at June 30, 2008 and December 31 and June 30, 2007, the Company had the following amounts outstanding relating to its critical accounting estimates:

| In millions | June 30 2008 (Unaudited) | December 31 2007 | June 30 2007 (Unaudited) |
|--|--------------------------------|---------------------|--------------------------------|
| Pension asset | \$ 1,858 | \$ 1,768 | \$ 1,329 |
| Pension liability | 193 | 187 | 202 |
| Other postretirement benefits liability | 268 | 266 | 276 |
| Provision for personal injury and other claims | 450 | 446 | 520 |
| Provision for environmental costs | 108 | 111 | 117 |
| Net deferred income tax provision | 5,033 | 4,840 | 4,812 |
| Properties | 20,864 | 20,413 | 20,401 |

Management discusses the development and selection of the Company's critical accounting estimates with the Audit Committee of the Company's Board of Directors, and the Audit Committee has reviewed the Company's related disclosures.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, forward-looking statements involve risks, uncertainties and assumptions and implicit in these statements, particularly in respect of growth opportunities, are the Company's assumptions that the U.S. economy is currently experiencing recessionary conditions, but that it will recover within the next six to nine months, that the global economy will grow at a moderate pace throughout this period, and that its business risks described below will not result in a material impact on its financial statements. These assumptions, although considered reasonable by the Company at the time of preparation, may not materialize. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. Such factors include the specific risks set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company (CP) which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company; long distance trucking companies; and in many markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

In addition to trucking competition, and to a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

The significant consolidation of rail systems in the United States has resulted in larger rail systems that are able to offer

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

seamless services in larger market areas and accordingly, compete effectively with the Company in certain markets. This consolidation requires the Company to consider arrangements or other initiatives that would similarly enhance its own service. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the United States concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years for environmental matters, based on known information, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In railroad and related transportation operations, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. In addition, the Company is also exposed to potential catastrophic liability risk, faced by the railroad industry generally, in connection with the transportation of toxic-by-inhalation hazardous materials such as chlorine and anhydrous ammonia, commodities that the Company may be required to transport to the extent of its common carrier obligations. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, environmental penalties and remediation obligations, and compensatory or punitive damages relating to harm to individuals or property.

The ultimate cost of known contaminated sites cannot be definitively established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up techniques, the Company's share of the costs and evolving regulatory standards governing environmental liability. Also, additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases. For these reasons, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs.

Personal injury and other claims

In the normal course of its operations, the Company becomes involved in various legal actions, including actions brought on behalf of various classes of claimants and claims relating to personal injuries, occupational disease and damage to property. The Company maintains provisions for such items, which it considers to be adequate for all of its outstanding or pending claims. The final outcome with respect to actions outstanding or pending at June 30, 2008, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their

resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Labor negotiations

Canadian workforce

As at June 30, 2008, CN employed a total of 16,417 employees in Canada, of which 12,782 were unionized employees.

As of July 2008, the Company had in place labor agreements covering its entire Canadian unionized workforce.

The Company's agreement with the UTU for its Northern Quebec line expired on December 15, 2007. The agreement remains in effect until the bargaining process has been exhausted. Negotiations are ongoing to renew that collective agreement, and neither party has requested conciliation assistance.

The Company's collective agreement covering employees working on the Mackenzie Northern Railway expired on May 2, 2008. These employees are covered by a single collective agreement but are represented by the Teamsters Canada Rail Conference (TCRC), the Canadian Auto Workers and the TCRC-Maintenance of Way Division. The TCRC had filed an application with the Canada Industrial Relations Board (CIRB), which was granted on June 25, 2008, to displace the UTU and represent the conductors working on the Mackenzie Northern Railway line. Notice to bargain has been given by the TCRC and negotiations commenced on June 26, 2008. Neither party has requested conciliation assistance. The agreement remains in effect until the bargaining process has been exhausted.

The Company's collective agreements with the TCRC, who represent locomotive engineers in one bargaining unit, and rail traffic controllers, also known as train dispatchers, in a separate bargaining unit, and with the Canadian National Railways Police Association (CNRPA) will expire on December 31, 2008.

There can be no assurance that the Company will be able to renew and have its collective agreements ratified without any strikes or lockouts or that the resolution of these collective bargaining negotiations will not have a material adverse effect on the Company's financial position or results of operations.

U.S. workforce

As at June 30, 2008, CN employed a total of 6,730 employees in the United States, of which 5,710 were unionized employees.

As of July 2008, the Company had in place agreements with bargaining units representing the entire unionized workforce at Grand Trunk Western Railroad Incorporated (GTW); Duluth, Winnipeg and Pacific Railway Company (DWP); ICRR; companies owned by CCP Holdings, Inc. (CCP); Duluth, Missabe & Iron Range Railway Company (DMIR); Bessemer & Lake Erie Railroad Company (BLE); The Pittsburgh and Conneaut Dock Company (PCD); and all but one of the unions at companies owned by Wisconsin Central Transportation Corporation (WC). The WC dispatchers became represented in May 2008 and are currently in the process of negotiating their first agreement. Agreements in place have various moratorium provisions, ranging from 2004 to 2011, which preserve the status quo in respect of given areas during the terms of such moratoriums. Several of these agreements are currently under renegotiation.

The general approach to labor negotiations by U.S. Class I railroads is to bargain on a collective national basis. GTW, DWP, ICRR, CCP, WC, DMIR, BLE and PCD have bargained on a local basis rather than holding national, industry-wide negotiations because they believe it results in agreements that better address both the employees' concerns and preferences, and the railways' actual operating environment. However, local negotiations may not generate federal intervention in a strike or lockout situation, since a dispute may be localized. The Company

believes the potential mutual benefits of local bargaining outweigh the risks.

Negotiations are ongoing with the bargaining units with which the Company does not have agreements or settlements. Until new agreements are reached or the processes of the Railway Labor Act have been exhausted, the terms and conditions of existing agreements generally continue to apply.

Autoport (Michigan), Ltd., a subsidiary of Autoport Ltd., which is a U.S. non-rail subsidiary of CN, employs approximately 450 employees in the U.S. Approximately 250 employees have collective bargaining agreements with the International Association of Machinists & Aerospace Workers at various locations and the remaining employees at the two facilities in Kentucky are represented by the International Brotherhood of Teamsters, but are not yet covered by agreements.

There can be no assurance that there will not be any work action by any of the bargaining units with which the Company is currently in negotiations or that the resolution of these negotiations will not have a material adverse effect on the Company's financial position or results of operations.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Regulation

The Company's rail operations in Canada are subject to (i) regulation as to rate setting, level of service and network rationalization by the Canadian Transportation Agency (the Agency) under the Canada Transportation Act (the CTA), and (ii) safety regulation by the federal Minister of Transport under the Railway Safety Act and certain other statutes. The Company's U.S. rail operations are subject to (i) economic regulation by the STB and (ii) safety regulation by the Federal Railroad Administration (FRA). As such, various Company business transactions must gain prior regulatory approval, with attendant risks and uncertainties, and the Company is subject to government oversight with respect to rate, service and business practice issues. In particular, this includes the STB's current review of the Company's proposed acquisition of the major portion of the lines of the Elgin, Joliet & Eastern Railway Company. In addition, the STB completed a proceeding on January 26, 2007 in which it reviewed the practice of rail carriers, including the Company and the majority of other large railroads operating within the U.S., of assessing a fuel surcharge computed as a percentage of the base rate for service. Following its review, the STB directed carriers to change that practice and adjust their fuel surcharge programs within 90 days on a basis more closely related to the amount of fuel consumed on individual movements. The Company announced a mileage-based fuel surcharge, effective April 26, 2007, to conform to the STB's decision. To make its rate dispute resolution procedures more affordable and accessible to shippers, the STB also completed a proceeding on September 5, 2007, in which it modified its rate guidelines for handling medium-size and smaller rate disputes. The STB also completed a proceeding on January 17, 2008 that changed the methodology for calculating the cost of equity component of the industry cost of capital that is used to determine carrier revenue adequacy and in rate, abandonment and other regulatory proceedings. The Company is also subject to a variety of health, safety, security, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The Company's ownership of the former Great Lakes Transportation vessels is subject to regulation by the U.S. Coast Guard and the Department of Transportation, Maritime Administration, which regulate the ownership and operation of vessels operating on the Great Lakes and in U.S. coastal waters. While recent Congressional legislation and Coast Guard rulemakings have not adversely affected CN's ownership of these vessels, no assurance can be given that any future legislative or regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations or its competitive and financial position.

With respect to safety, rail safety regulation in Canada is the responsibility of Transport Canada, which administers the Canadian Railway Safety Act, as well as the rail portions of other safety-related statutes. In the U.S., rail safety regulation is the responsibility of the FRA, which administers the Federal Railroad Safety Act, as well as the rail portions of other safety statutes. In addition, safety matters related to security are overseen by the Transportation Security Administration (TSA), which is part of the U.S. Department of Homeland Security and the Pipeline and Hazardous Materials Safety Administration (PHMSA), which, like the FRA, is part of the U.S. Department of Transportation.

Following the coming into force of the Transportation Amendment Act, the Agency issued two decisions (interim and final) adjusting the index used to determine the maximum railway revenue entitlement that railways can earn on the movement of regulated grain produced in western Canada, to reflect costs incurred by CN and CP for the maintenance of hopper cars. The final decision issued in February 2008 was retroactive to August 2007. The Federal Court of Appeal granted the Company leave to appeal the Agency decisions and stayed their application pending appeal. As such, the Company does not consider it necessary to accrue the retroactive component of the Agency's decision estimated to be approximately \$20 million.

On December 14, 2006, the federal government announced a full review of the Railway Safety Act. Members of the panel appointed to conduct the review submitted their report to the Minister of Transport in November 2007. On March 7, 2008, the Minister of Transport tabled the Panel's report in the House of Commons. The Report includes more than 50 recommendations to improve rail safety in Canada but concludes that the current framework of the Railway Safety Act is sound. The recommendations propose amendments to the act in a number of areas including governance, regulatory framework and proximity issues. The Company will be participating in the Rail Safety Advisory Committee to be created by the Minister of Transport.

On October 29, 2007, the Minister of Transport tabled Bill C-8, entitled An Act to amend the Canada Transportation Act (railway transportation) extending the availability of the Final Offer Arbitration recourse to groups of shippers and adding a new shipper recourse to the Agency in respect of charges for incidental services provided by a railway company other than transportation services. The Bill became law on February 28, 2008. No assurance can be given that any current or future legislative action by the federal government or other future government initiatives will not materially adversely affect the Company's financial position or results of operations.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

In the United States, the Bush Administration submitted to Congress in 2007 its legislative proposal to reauthorize the Federal Railroad Safety Act. In addition, the U.S. House of Representatives has passed its own rail safety legislation (H.R. 2095) covering a broad range of safety issues, including fatigue management, positive train control, track safety standards, and other matters. The United States Senate is also considering its own safety legislation (S. 1889), which covers a broad range of issues. Separate legislation passed by the U.S. House (H.R. 1401) in March 2007 included language that would have undermined much of the federal preemption of state and local regulation of railroads; this provision was modified in the final bill enacted into law to address litigation issues related to rail safety incidents while retaining federal preemption of rail safety regulations.

The U.S. Congress has had under consideration for several years various pieces of legislation that would increase federal economic regulation of the railroad industry, and additional legislation was introduced in 2007 in both Houses of Congress. In addition, the Senate Judiciary Committee approved legislation in September 2007 (S. 772) to repeal the railroad industry's limited antitrust exemptions; comparable legislation (H.R. 1650) is under consideration in the U.S. House of Representatives.

The STB is authorized by statute to commence regulatory proceedings if it deems them to be appropriate. No assurance can be given that this or any future regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations, or its competitive and financial position.

The Company is subject to statutory and regulatory directives in the United States addressing homeland security concerns, as well as by regulation by the Canada Border Services Agency (CBSA). In the U.S., these include border security arrangements, pursuant to an agreement the Company and CP entered into with U.S. Customs and Border Protection (CBP) and the CBSA. These requirements include advance electronic transmission of cargo information for U.S.-bound traffic and cargo screening (including gamma ray and radiation screening), as well as U.S. government-imposed restrictions on the transportation into the United States of certain commodities. These also include participation in CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) program and designation as a low-risk carrier under CBSA's Customs Self-Assessment (CSA) program; in the third quarter of 2007, the Company successfully completed the CBP C-TPAT validation process. In the fourth quarter of 2003, the CBP issued regulations to extend advance notification requirements to all modes of transportation and the U.S. Food and Drug Administration promulgated interim final rules requiring advance notification by all modes for certain food imports into the United States. CBSA is also working on implementation of advance notification requirements for Canadian-bound traffic. In 2006, the U.S. Department of Agriculture (USDA) issued a proposed interim rule, which would remove the current exemption from inspection for imported fruits and vegetables grown in Canada and the exemptions for all transport modes from the agricultural quarantine and inspection (AQI) user fee for traffic entering the U.S. from Canada. The rule took effect for surface modes on June 1, 2007.

The Company has also worked with the Association of American Railroads to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts by state and local governments seeking to restrict the routings of certain hazardous materials. If such state and local routing restrictions were to go into force, they would be likely to add to security concerns by foreclosing the Company's most optimal and secure transportation routes, leading to increased yard handling, longer hauls, and the transfer of traffic to lines less suitable for moving hazardous materials, while also infringing upon the exclusive and uniform federal oversight over railroad security matters. In addition to recommended security action items for the rail transportation of toxic inhalation hazard (TIH) materials jointly announced by the TSA and the FRA on June 23, 2006 and November 21, 2006, the PHMSA issued interim final rules on April 16, 2008, that, beginning in 2009, will require carriers operating in the U.S. to report annually the volume and route-specific data for cars containing these commodities; conduct a safety and security risk

analysis for each used route; identify a commercially practicable alternative route for each used route; and select for use the practical route posing the least safety and security risk. The TSA has also proposed regulations that would require rail carriers to provide upon request, within one hour, location and shipping information on cars on their networks containing TIH materials and certain radioactive or explosive materials, and ensure the secure, attended transfer of all such cars to and from shippers, receivers and other carriers. The TSA regulations are expected to be issued in the second half of 2008.

While the Company will continue to work closely with the CBSA, CBP, and other Canadian and U.S. agencies, as described above, no assurance can be given that these and future decisions by the U.S., Canadian, provincial, state, or local governments on homeland security matters, legislation on security matters enacted by the U.S. Congress, or joint decisions by the industry in response to threats to the North American rail network, will not materially adversely affect the Company's operations, or its competitive and financial position.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Business prospects and other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicity in demand. Many of the bulk commodities the Company transports move offshore and are affected more by global rather than North American economic conditions. The Company's results of operations can be expected to reflect these conditions because of the significant fixed costs inherent in railroad operations.

Global as well as North American trade conditions, including trade barriers on certain commodities, may interfere with the free circulation of goods across Canada and the United States.

The Company, like other railway companies in North America, may experience demographic challenges in the employment levels of its workforce. Changes in employee demographics, training requirements and the availability of qualified personnel could negatively impact the Company's ability to meet demand for rail service. The Company is monitoring employment levels to ensure that there is an adequate supply of personnel to meet rail service requirements. However, the Company's efforts to attract and retain qualified personnel may be hindered by increased demand in the job market. No assurance can be given that the demographic challenges will not materially adversely affect the Company's operations or its financial position.

The Company, like other railroads, is susceptible to the volatility of fuel prices due to changes in the economy or supply disruptions. Rising fuel prices could materially adversely affect the Company's expenses. As such, CN has implemented a fuel surcharge program with a view of offsetting the impact of rising fuel prices. The surcharge applied to customers is determined in the second calendar month prior to the month in which it is applied, and is calculated using the average monthly price of West-Texas Intermediate crude oil (WTI) for revenue-based tariffs and On-Highway Diesel (OHD) for mileage-based tariffs. No assurance can be given that continued increases in fuel prices or supply disruptions will not materially adversely affect the Company's operations or its financial position.

Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans as well as the Company's results of operations. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may increase future pension contributions and could have a material adverse effect on the Company's results of operations. The funding requirements, as well as the impact on the results of operations, will be determined following the completion of future actuarial valuations.

Potential terrorist actions can have a direct or indirect impact on the transportation infrastructure, including railway infrastructure in North America, and interfere with the free flow of goods. International conflicts can also have an impact on the Company's markets.

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Based on the Company's current operations, the estimated annual impact on net income of a year-over-year one-cent change in the Canadian dollar relative to the U.S. dollar is approximately \$10 million. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby further affect the Company's revenues and expenses.

When a recession occurs in the U.S., Canada or other key markets, or when major industrial restructuring takes place, the volume of rail shipments carried by the Company may be adversely affected.

In order to grow the business, the Company implements strategic initiatives to expand the scope and scale of existing rail and non-rail operations. CN WorldWide International, the Company's international freight-forwarding subsidiary, was formed to leverage existing non-rail capabilities. This subsidiary operates in a highly competitive market and no assurance can be given that the expected benefits will be realized given the nature and intensity of the competition in that market.

In addition to the inherent risks of the business cycle, the Company's operations are occasionally susceptible to severe weather conditions, which can disrupt operations and service for the railroad as well as disrupt operations for the Company's customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

CANADIAN NATIONAL RAILWAY COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2008, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been made known to them.

During the second quarter ending June 30, 2008, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information, including the Company's 2007 Annual Information Form (AIF) and Form 40-F, as well as the Company's Notice of Intention to Make a Normal Course Issuer Bid, may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov, respectively. Copies of such documents may be obtained by contacting the Corporate Secretary's office.

Montreal, Canada
July 21, 2008

Item 4

Statement of CEO Regarding Facts and
Circumstances Relating to Exchange Act Filings

I, E. Hunter Harrison, certify that:

- (1) I have reviewed this report on Form 6-K of Canadian National Railway Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2008

/s/ E. Hunter Harrison
E. Hunter Harrison
President and Chief Executive
Officer

Statement of CFO Regarding Facts and
Circumstances Relating to Exchange Act Filings

I, Claude Mongeau, certify that:

- (1) I have reviewed this report on Form 6-K of Canadian National Railway Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2008

/s/ Claude Mongeau
Claude Mongeau
Executive Vice-President and
Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canadian National Railway Company

Date: July 25, 2008

By: /s/ Cristina Circelli
Name: Cristina Circelli
Title: Deputy Corporate Secretary and
General Counsel