# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 40-F

**[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**
**OR**
**[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: **December 31, 2007** Commission File Number: **1-2413**

# CANADIAN NATIONAL RAILWAY COMPANY

(Exact name of registrant as specified in its charter)

| **Canada** | **4011** | **E.I. 980018609** |
|---|---|---|
| (Jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

**935 de La Gauchetiere Street West**
**Montreal, Quebec**
**Canada H3B 2M9**
**(514) 399-7091**
(Address, including zip code, and telephone number including area code, of Registrant's principal executive offices)

**CT Corporation System**
**111 Eighth Avenue**
**New York, N.Y. 10011**
**(212) 894-8600**
(Name, address, including zip code, and telephone number, including area code, of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common shares** | **New York Stock Exchange**<br>**Toronto Stock Exchange** |

Securities registered pursuant to Section 12(g) of the Act: **None**
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **Debentures and Notes (Debt Securities) of Registrant**

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [ ] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
**At December 31, 2007, 485,189,172 common shares were issued and outstanding.**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.
Yes o No ý

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o

## CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

Canadian National Railway Company's President and Chief Executive Officer (the "CEO") and its Executive Vice-President and Chief Financial Officer (the "CFO"), after evaluating the effectiveness of Canadian National Railway Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2007 (the "Evaluation Date"), have concluded that as of the Evaluation Date, Canadian National Railway Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to Canadian National Railway Company and its consolidated subsidiaries (the "Registrant" or the "Company") would be made known to them by others within those entities.

*Changes in Internal Control Over Financial Reporting*

During the year ended December 31, 2007, there was no change in the Canadian National Railway Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Canadian National Railway Company's internal control over financial reporting.

## AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that it has several audit committee financial experts serving on its Audit Committee. Mr. Hugh Bolton has been determined to be an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to U.S. Companies. The SEC has indicated that the designation or identification of Mr. Bolton as an audit committee financial expert does not deem him an "expert" for any purpose, impose any duties, obligations or liability on Mr. Bolton that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

## CODE OF ETHICS

The Registrant has adopted a code of ethics (the "Code of Business Conduct") that applies to all employees and officers, including its principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct is available at the Registrant's Internet website, www.cn.ca under the caption "Corporate Governance." Any amendments to the Code of Business Conduct will be posted at the Registrant's Internet website at the address listed above.

## PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG LLP has served as the Company's auditors since 1992. In 2007 and 2006, fees for audit, audit-related, tax and other services provided to the Company by KPMG LLP were the following:

| Year ended December 31, | 2007[1] (CAD$) | 2006[1] (CAD$) |
|---|---|---|
| Audit fees | $3, 170,000 | $3,009,000 |
| Audit-related fees | 1,371,000 | 930,000 |
| Tax fees | 603,000 | 479,000 |
| Other fees | — | — |
| Total | $5,144,000 | $4,418,000 |

[1] Fees rounded to the nearest thousand.

Pursuant to the terms of its charter, the Audit Committee of CN approves all audit and audit-related services, audit engagement fees and terms and all non-audit engagements with the independent auditor. The Audit Committee pre-approved 100% of the services performed by our independent auditors for audit-related and tax fees for the years ended December 31, 2007 and 2006 that were required to be pre-approved.

A discussion of the nature of the services provided under each category is provided below.

*Audit fees*

Consists of fees incurred for professional services rendered by the auditors in relation to the audit of the Company's consolidated annual financial statements and those of its subsidiaries, and the audit relating to the Company's internal control over financial reporting.

*Audit-related fees*

Audit-related fees were incurred for professional services rendered by the auditors in relation to the audit of the financial statements for the Company's pension plans, and for attestation services in connection with reports required by statute or regulation and due diligence and other services, including comfort letters, in connection with the issuance of securities.

*Tax fees*

Consists of fees incurred for consultations on cross-border tax implications for employees and tax compliance.

*Other fees*

Nil.

## 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 December 31, 2007, 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 December 31, 2007, the Company had sold receivables that resulted in proceeds of $588 million under the accounts receivable securitization program ($393 million at December 31, 2006), and recorded the retained

interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded at December 31, 2006).

*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 18 – Major commitments and contingencies, to the Company's 2007 Annual Consolidated Financial Statements.

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations in Canadian dollars for the following items as at December 31, 2007:

| *In millions* | **Total** | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 & thereafter |
|---|---|---|---|---|---|---|---|
| Long-term debt obligations[(a)] | **$ 4,512** | $ 170 | $ 299 | $ - | $ 517 | $ - | $ 3,526 |
| Interest on long-term obligations | **5,428** | 277 | 267 | 254 | 252 | 223 | 4,155 |
| Capital lease obligations[(b)] | **1,620** | 145 | 165 | 100 | 164 | 75 | 971 |
| Operating lease obligations[(c)] | **879** | 152 | 125 | 106 | 84 | 68 | 344 |
| Purchase obligations[(d)] | **952** | 492 | 156 | 108 | 52 | 36 | 108 |
| Other long-term liabilities reflected on the balance sheet | **950** | 73 | 60 | 51 | 44 | 41 | 681 |
| *Total obligations* | **$ 14,341** | **$ 1,309** | **$ 1,072** | **$ 619** | **$ 1,113** | **$ 443** | **$ 9,785** |

*(a) Presented net of unamortized discounts, of which $836 million relates to non-interest bearing Notes due in 2094, and excludes capital lease obligations of $1,105 million which are included in "Capital lease obligations."*

*(b) Includes $1,105 million of minimum lease payments and $515 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 the attached Management's Discussion and Analysis for a discussion of assumptions and risk factors affecting such forward-looking statement.

## IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant's audit committee is composed of the following directors: Denis Losier (Chair), Michael R. Armellino, A. Charles Baillie, Hugh J. Bolton, Robert H. Lee and Robert Pace.

## CORPORATE GOVERNANCE PRACTICES

The Registrant's board of directors has also reviewed the Registrant's corporate governance practices in response to the U.S. Sarbanes-Oxley Act of 2002, applicable rules of the U.S. Securities and Exchange Commission, as well as the NYSE Corporate Governance Standards (the "NYSE Standards"). The board of directors will continue to review its corporate governance practices regularly in response to the evolving standards. Except as disclosed on its website, the Registrant's corporate governance practices do not differ significantly from that followed by U.S. domestic companies under the NYSE Standards. A discussion of differences is available at the Registrant's Internet website, www.cn.ca under the caption "Corporate Governance".

## UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises.



**CANADIAN NATIONAL**
**RAILWAY COMPANY**

**2007**

# ANNUAL INFORMATION FORM

**February 11, 2008**

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## ITEM 1 GENERAL INFORMATION

Except as otherwise indicated in this Annual Information Form ("AIF"), the information contained herein is given as of December 31, 2007. All references in this AIF to "dollars" or "$" are to Canadian dollars and all financial information reflected herein is determined on the basis of, and prepared in accordance with, United States generally accepted accounting principles ("U.S. GAAP"), unless otherwise indicated.

Certain statements contained in this AIF or incorporated by reference herein may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. All statements, other than statements of historical facts, included or incorporated by reference herein that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of the Company, and other such matters, are forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. The Company assumes that, although there is an increasing risk of recession in the U. S. economy, growth in North America and globally will continue to slow down in 2008, but that a recession will not take place. The Company cautions that this, as well as its other assumptions, may not materialize, and that its actual results or developments anticipated by the Company 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, actions by regulators, risks and liabilities arising from derailments, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, the effects of adverse general economic, market or business conditions, the opportunities or lack thereof that may be presented to, or pursued by, the Company, inflation, currency fluctuations, changes in fuel prices, labor negotiations and disruptions, environmental claims, uncertainties of investigations or proceedings, or 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 the discussion of these risk factors in CN's 2007 Annual Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis, for a summary of major risks, which documents may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

The Company 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 the Company does update any forward-looking statement, no inference should be made that it will make additional updates with respect to that statement, related matters, or any other forward looking statement.

## ITEM 2 INCORPORATION

### 2.1 *Incorporation of the Issuer*

Canadian National Railway Company ("CNR") was incorporated in 1922 by special act of the Parliament of Canada. CNR's continuance under the *Canada Business Corporations Act* was authorized by the *CN Commercialization Act* and was effected by Certificate of Continuance dated August 24, 1995. On November 9, 1995, CNR filed Articles of Amendment in order to subdivide its outstanding common shares (the "common shares"). As of November 28, 1995, CNR ceased to be a Crown corporation. On April 19, 2002, CNR filed Articles of Amendment in order to provide that shareholder meetings may be held at certain specified places in the United States. Such constating documents are hereinafter collectively referred to as the "Articles".

As used herein, the word "Company" or "CN" means, as the context requires, CNR and/or its subsidiaries.

The Company's registered and head office is located at 935 de La Gauchetière Street West, Montréal, Québec, H3B 2M9, Canada, and its telephone number is 1-888-888-5909.

### 2.2 *Subsidiaries*

CN's principal subsidiaries as of December 31, 2007, all of which are wholly owned (directly or indirectly), and their jurisdiction of incorporation, are indicated below:

| Name | Jurisdiction of Incorporation |
|---|---|
| Grand Trunk Corporation | Delaware |
| Grand Trunk Western Railroad Incorporated ("GTW") | Delaware |
| Illinois Central Corporation ("IC") | Delaware |
| Illinois Central Railroad Company ("ICRR") | Illinois |
| Wisconsin Central Transportation Corporation ("WC") | Delaware |
| Wisconsin Central Limited | Illinois |

The financial statements of each of the above principal subsidiaries are consolidated within CN's financial statements.

## ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

### *3.1 General Development of the Business During the Last Three Years*

CN's goal is to grow the business profitably, creating value for its customers and generating an adequate and sustainable return on capital invested. To reach that goal, CN focuses on strategies and initiatives that allow it to continually improve service, seize upon a range of business opportunities, and achieve productivity gains throughout the organization. The initiatives undertaken by CN in the last three years to achieve its growth and profitability goals and to enhance shareholder value can be grouped into a few key areas. These include acquisitions and dispositions, targeted capital investment spending and other initiatives to strengthen the Company's position in the marketplace, cooperation and co-production agreements with other carriers, as well as financial management initiatives as described below:

**2007 Highlights**

*Acquisitions and Dispositions*

In September 2007, CN entered into an agreement with the U.S. Steel Corporation ("U.S. Steel") for the acquisition of the key operations of Elgin, Joliet and Eastern Railway Company ("EJ&E") for approximately U.S.$300 million. The acquisition is expected to significantly improve the fluidity of CN's rail operations in the Chicago region, rewarding customers with faster transit times and more reliable service. Under the terms of the agreement, U.S. Steel's Transtar subsidiary retains railroad assets, equipment, and employees that support the Gary Works site in Northwest Indiana and the steelmaking operations of U.S. Steel. Transtar's remaining operations will become the Gary Railway. 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 U.S. Surface Transportation Board ("STB") a final, unappealable decision that approves the acquisition or exempts it from regulation 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 that would normally provide for a decision by mid-2008. The STB, however, is also requiring an Environmental Impact Statement ("EIS") for the transaction, and it has indicated that its decision will not be issued until the EIS process is completed. The Company believes that the STB should be able to conclude its environmental review and issue a

decision that would enable the transaction to close by late 2008. EJ&E, a Class II railroad, operates over 198 main line miles of track encircling the City of Chicago from Waukegan, Illinois, on the north, to Joliet, Illinois, on the west, to Gary, Indiana, on the southeast, and then to South Chicago. CN plans to invest approximately U.S.$100 million for integration, new connections, and infrastructure improvements to add capacity on the EJ&E line and allow network synergies to be realized over time. The acquisition, which will be financed with debt and cash-on-hand, is expected to be slightly accretive to CN's diluted earnings per share in the first year following STB approval.

In November 2007, CN finalized an agreement with Homburg Invest Inc. to sell its Central Station Complex in Montreal for proceeds of $355 million before transaction costs. Under the agreement, CN has entered into long-term arrangements to lease back its corporate headquarters building and the Central Station railway passenger facilities.

In November 2007, Germany's state-owned railway, Deutsche Bahn AG, acquired all of the shares of the English Welsh and Scottish Railway ("EWS"), a company that provides most of the rail freight services in Great Britain and operates freight trains through the English Channel Tunnel, and in which the Company had a 32% ownership interest, accounted for using the equity method. The Company's share of the cash proceeds was $114 million. Pursuant to the sale of the Company's investment in EWS, an additional amount of £18 million (Cdn$36 million) was placed in escrow and will be recognized when defined contingencies are resolved.

In December 2007, CN acquired the rail assets of the Athabasca Northern Railway ("ANY") to preserve a critical rail link to the oil sands region of northern Alberta. CN's purchase and rail-line rehabilitation plan was premised on long-term traffic volume guarantees that the Company has negotiated with shippers Suncor Energy Inc., OPTI Canada Inc., and Nexen Inc. CN paid $25 million for ANY and plans to invest $135 million in rail-line upgrades over the next three years to improve transit times and service consistency. The 202-mile ANY connects with CN at Boyle, Alberta, located 101 miles north of Edmonton. CN's plans for the line are designed to preserve market access to existing and potential receivers along the rail corridor and to accommodate any increased volumes that may move over the line in future to support oil sands development.

*Strategic Initiatives and Capital Spending*

In April 2007, CN set up 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.

In June 2007, CN committed itself to the acquisition of 65 new fuel-efficient, high-horsepower locomotives scheduled for delivery over the following 2-year period. These are in addition to the 65 locomotives previously ordered for delivery in 2007. In addition to improved reliability, the new units are about 15 per cent more fuel efficient than the locomotives they will replace, and will comply fully with the latest regulatory requirements for reduced locomotive emissions. The new locomotive orders are part of a major fuel conservation program by CN and will ultimately permit the retirement of 145 older locomotives. All of these 130 new locomotives CN ordered will be equipped with distributed power capability, which allows them to be placed in the middle of a freight train and to be remotely controlled from the lead locomotive. Distributed power technology improves fuel efficiency and train handling, and permits CN to maximize the productivity gains associated with its extended siding program.

In October 2007, operations commenced at the Port of Prince Rupert container terminal. CN, in partnership with the Prince Rupert Port Authority and Maher Terminals, will seek to offer the marketplace faster, more efficient and more cost-effective routing than previously available for Asian traffic destined to and from the interior of North America, including the cities of Chicago, Memphis, Toronto and Montreal. As the closest port to northeast Asia by up to 58 hours of sailing time compared to any other West Coast port in North America, the Port of Prince Rupert gives shippers approximately one extra round-trip voyage per year. The Port is strategically located to handle excess capacity on one of the world's busiest shipping corridors. The official opening for business of the terminal, with the first major customer, COSCO Container Lines Americas, Inc., signed on, has helped to establish CN as a key player

serving North America's newest Pacific Gateway. CN plans continued investment in its western Canadian network, which benefits Canada's Pacific Gateway. These improvements include upgrades to rail traffic control systems west of Prince George and extended sidings that will increase capacity in the corridor from Prince Rupert through to Memphis. CN has upgraded tunnels and bridges, built new intermodal terminals in Prince George and Edmonton, and acquired 2,250 platform cars and 50 new state-of-the-art locomotives specifically to serve this gateway.

In October 2007, CN began operation of its Prince George intermodal and distribution centre terminal. Prince George, situated 500 miles east of Prince Rupert, is in close proximity to British Columbia's large fibre reserves and other natural resources and is CN's divisional headquarters and main operations hub in northern B.C. Built by CN at a cost of $20 million, the Prince George facility is ideally located to tap backhaul export opportunities, filling empty containers moving to Asia via Prince Rupert with lumber, panels, woodpulp and paper, as well as ores, plastics and some metals products. It is designed to help CN maximize revenue potential generated from the new terminal at Prince Rupert. The Prince George Distribution Centre has an 84,000 square-foot warehouse and 10 acres of outside storage. A full range of services will be provided by CN WorldWide North America, including product transfer, inspection, consolidation/deconsolidation, inventory control and transportation. Loaded containers will be lifted onto railway flatcars at CN's new adjacent intermodal rail yard, which features two 2,400-foot pad tracks, trucking and truck-pick-up capabilities and an automated gate system. CN is providing direct, daily rail service from the Prince George facility to the Port of Prince Rupert.

In 2007, CN's capital expenditure was close to $1.7 billion. Excluding the $90 million capital lease for the Montreal Central Station Complex, the capital spending was about $1.6 billion, which amounted to approximately 20% of revenues and an increase of three per cent over the 2006 level. Of this, more than $1 billion was 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, as well as the improvement of bridges. This amount also included 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 the boom in the West. CN spent approximately $300 million on rolling stock in 2007 to tap growth opportunities and to improve the quality of the fleet to meet customer requirements. The Company continued its locomotive fleet modernization program with the acquisition of 85 new high-horsepower fuel-efficient units and ongoing locomotive overhauls. CN also spent more than $300 million on facilities to grow the business, including transloads and distribution centres, on information technology to improve service and operating efficiency, as well as on other projects to increase productivity.

*Financial Management Initiatives*

In July 2007, the Board of Directors of the Company approved a new share repurchase program, which allows for the repurchase of up to 33.0 million common shares between July 26, 2007 and July 25, 2008 pursuant to a normal course issuer bid, at prevailing market prices or such other price as may be permitted by the Toronto Stock Exchange. As at December 31, 2007, under this current share repurchase program, 17.7 million common shares have been repurchased for $897 million, at a weighted-average price of $50.70 per share. The Company's previous share repurchase program, initiated in July 2006, allowed for the repurchase of up to 28.0 million common shares between July 25, 2006 and July 24, 2007, pursuant to a normal course issuer bid, at prevailing market prices. In June 2007, the Company completed this share repurchase program for a total of $1,453 million, at a weighted-average price of $51.88 per share.

In September 2007, CN used up the remaining borrowing capacity under its shelf prospectus and registration statement to issue a U.S.$550 million debt offering composed of U.S.$250 million (Cdn$250 million) 5.85% Notes due 2017, and U.S.$300 million (Cdn$300 million) 6.375% Debentures due 2037. CN used the net proceeds of U.S.$544 million from the offering to repay a portion of its outstanding commercial paper and to reduce its accounts

receivable securitization program. The indebtedness being repaid was incurred for general corporate purposes, including for the financing of CN's share repurchase program.

In December 2007, CN filed a shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), expiring in January 2010, providing for the issuance by CN, of up to U.S.$2.5 billion of debt securities in Canadian and U.S. markets in one or more offerings. CN expects to use the net proceeds from the sale of debt securities under the shelf prospectus and registration statement for general corporate purposes, including the redemption and refinancing of outstanding indebtedness, share repurchases, acquisitions, and other business opportunities.

*Significant Cooperation Agreements*

As part of an ongoing effort to improve productivity and capacity, CN periodically enters into cooperation agreements with other carriers, including track and infrastructure exchanges, co-production, haulage and track access agreements, as well as routing protocols that endeavour to emphasize more efficient interchanges to bypass congested terminals. In 2007, CN concluded several such cooperation agreements, including the following:

- In June 2007, CN and Kansas City Southern Railway ("KCS") concluded a routing protocol to streamline the interchange of traffic in a way that reduces both miles and handlings.

- In November 2007, CN and Canadian Pacific Railway Company ("CPR") concluded a routing protocol to expedite the exchange of interline freight traffic at key gateways in both Canada and the U.S.

These two agreements represent the latest in a series of routing protocol agreements negotiated by CN that collectively include every Class I North American railroad.

2007 also saw the conclusion of additional co-production agreements covering various parts of CN's network, including one with Norfolk Southern Railway ("NS") in March 2007 and one with Ontario Northland Railway in May 2007. The shared facilities and joint operations enabled by these agreements help to drive operational efficiencies as well as asset utilization improvements for each of the participating carriers.

**2006 Highlights**

*Acquisitions and Dispositions*

In 2006, CN made the following acquisitions for a total cost of $84 million paid in cash:

In January 2006, CN completed the purchase of the Alberta short-line railways owned by RailAmerica, Inc., of Boca Raton, Florida. CN bought the 600-mile Mackenzie Northern Railway ("MKNR") and the 118-mile Lakeland & Waterways Railway ("LWR"), both located north of Edmonton, along with the 21-mile Central Western Railway ("CWR") in east-central Alberta that carries agricultural traffic. These feeder lines are a good fit for CN's merchandise and bulk commodity groups at a time of major energy project development in northern Alberta.

In March 2006, CN acquired the remaining 51% of SLX Canada Inc., a company engaged in equipment leasing in which the Company previously had a 49% interest that had been consolidated with its results.

In December 2006, CN completed the purchase of Savage Alberta Railway, Inc. ("SAR"), a 345-mile short-line railway, from Savage Companies of Salt Lake City, Utah. The acquisition represents an opportunity for CN to solidify its freight franchise in resource-rich northwestern Alberta.

*Strategic Initiatives and Capital Spending*

In 2006, CN spent more than $1.5 billion on capital programs, an increase of eleven per cent over 2005 spending. This included approximately $1 billion spent on infrastructure, replacing rail, ties, ballast, and other track material and upgrading bridges and signalling systems, as well as network productivity initiatives and strategic projects, including siding extensions in western Canada, investments in the Company's Prince Rupert, British Columbia, corridor, and the reconfiguration of Johnston Yard in Memphis, Tennessee. Equipment spending of approximately $350 million in 2006 was for the acquisition of new locomotives, the rejuvenation of the existing locomotive fleet, the acquisition of new cars and the refurbishment of the current fleet to meet customer needs. CN also spent approximately $200 million on facilities, information technology and other projects to allow the Company to tap new growth opportunities and drive overall efficiency gains.

Through 2006, CN continued to take delivery of 75 high-horsepower locomotives ordered in April of 2005, leaving just 15 of the original order for delivery in the latter half of 2007. Also in 2006, the Company exercised its option to acquire an additional 50 high-horsepower locomotives for delivery in the second half of 2007. The 75 new locomotives of 4,300 – 4,400 horsepower allow CN to replace 100 older 3,000 – 3,600 horsepower road locomotives. These new units are almost 20 per cent more fuel-efficient than the ones replaced. The additional 50 locomotives will allow CN to tap growth opportunities, including new international freight traffic to and from the Port of Prince Rupert intermodal terminal.

*Significant Cooperation Agreements*

In 2006, CN concluded several cooperation agreements, including the following in January 2006:

• CN and BNSF Railway Company (“BNSF”) concluded an agreement covering several key locations where their respective networks interact including, in particular, the Vancouver, B.C., Chicago, and Memphis to southern Illinois regions;

• CN and CPR concluded an agreement intended to make rail operations more fluid in British Columbia’s Lower Mainland, enhancing service for rail customers and supporting the growth of Pacific Gateway ports and terminals; and

• CN and CSX Transportation, Inc., (“CSXT”) concluded a long-term agreement to haul CSXT traffic to and from Sarnia, Ont., and CSXT connections in Buffalo, New York, and Toledo, Ohio.

*Financial Management Initiatives*

In May 2006, the Company filed a shelf prospectus and registration statement, expiring in June 2008, which provides for the issuance, from time to time, of up to U.S.$1,500 million of debt securities in one or more offerings in the Canadian or U.S. markets for general corporate purposes. Pursuant to the filing, on May 31, 2006, the Company issued U.S.$250 million (Cdn$275 million) of 5.80% Notes due 2016 and U.S.$450 million (Cdn$495 million) of 6.20% Debentures due 2036. The Company used the net proceeds of U.S.$692 million to reduce its accounts receivable securitization program and to repay a portion of its outstanding commercial paper.

In May 2006, the Company entered into an 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. This new program replaces the Company’s previous accounts receivable securitization program that was set to expire in June 2006.

In July 2006, the interest rate on the Company’s U.S.$250 million Puttable Reset Securities PURS℠ (“PURS”) was reset at a new rate of 6.71% for the remaining 30-year term ending July 15, 2036. The PURS were originally issued

in July 1998 at the rate of 6.45% with an option to call the securities on July 15, 2006 (the reset date). The call option holder exercised the call option, which resulted in the remarketing of the original PURS. The new interest rate was determined according to a pre-set mechanism based on prevailing market conditions. The Company did not receive any cash proceeds from the remarketing. The remarketing did not trigger an extinguishment of debt, as the provisions for the reset of the interest rate were set forth in the original PURS. As such, the original PURS remain outstanding but accrue interest at the new rate until July 2036. Under securities laws, the remarketing required utilization of the Company's then current shelf prospectus and registration statement.

As mentioned in the 2007 Highlights, in July 2006, the Board of Directors of the Company approved a new share repurchase program which allowed for the repurchase of up to 28.0 million common shares between July 25, 2006 and July 24, 2007 pursuant to a normal course issuer bid, at prevailing market prices. As at December 31, 2006, 15.5 million common shares had been repurchased for $766 million, at a weighted-average price of $49.43 per share. The Company's previous share repurchase program, initiated in 2005, allowed for the repurchase of up to 32.0 million common shares between July 25, 2005 and July 24, 2006 pursuant to a normal course issuer bid, at prevailing market prices. In June 2006, the Company ended this share repurchase program, having repurchased a total of 30.0 million common shares for $1,388 million at a weighted-average price of $46.26 per share. Of this amount, 14.0 million common shares were repurchased in 2006 for $717 million (weighted-average price per share of $51.24) and 16.0 million common shares in 2005 for $670 million (weighted-average price per share of $41.90).

**2005 Highlights**

*Strategic Initiatives and Capital Spending*

In 2005, CN spent $1.4 billion on capital additions. The Company continued to focus infrastructure capital toward a safe, reliable and fluid network. In particular, CN invested in further siding extensions on its line west of Edmonton to accommodate growing volumes, to improve network velocity and to run longer trains. CN also partnered with the Port of Prince Rupert and Maher Terminals of Canada Corporation ("Maher Terminals") in the development of the Fairview intermodal container terminal at Prince Rupert, which is expected to become an important gateway for trade between North America and Asia. CN also spent in excess of $300 million on rolling stock in 2005 with a view toward building a more homogeneous fleet of high-capacity cars, driving both customer-service quality and distribution efficiencies. CN took delivery of 750 new centerbeams and 500 new Plate F boxcars by the end of 2005. Modernization of the locomotive fleet continued in 2005 as discussed under the 2006 Highlights herein. CN's information and communication technology investment in 2005 was in line with 2004 spending, with the primary focus on base computing and communication infrastructure, integration of the BC Rail Partnership and the former BC Rail Ltd. and the railroads and related holdings of Great Lakes Transportation LLC, and the maximization of value obtained from its SAP Enterprise system.

In April 2005, with $60 million in funding for the new Port of Prince Rupert container terminal secured from the Canadian and British Columbia governments, CN, Maher Terminals and the Prince Rupert Port Authority announced plans for the new terminal as discussed in the 2007 Highlights. CN's investment in the new terminal included an amount of $15 million for the intermodal yard at the port, $10 million for the terminal trackage, and additional funding for infrastructure improvements to CN's B.C. North line to accommodate double-stack container cars. Maher Terminals' contribution included funds for the acquisition and installation of three large container cranes at the terminal, together with supporting container-handling equipment and technology, at a cost of approximately $60 million. The Prince Rupert Port Authority undertook to contribute $25 million to the container terminal development. Phase 1 of the terminal development, expected to provide initial throughput capacity of up to 500,000 TEUs (twenty foot equivalent containers) per year, is part of a broader plan to build a facility capable of handling two million TEUs per year.

In May 2005, CN formed CN WorldWide, a wholly owned subsidiary to offer international freight forwarding services between Europe and North America to allow CN to provide shippers an integrated, door-to-door freight service, and

position it to drive new containerized traffic through CN-served ports in North America. CN WorldWide is based in Rotterdam, Netherlands, the largest container port in the world outside of Asia. It schedules and manages the door-to-door movement of international shipments, including rail, trucking, maritime transportation and port handling, along with warehousing, customs and billing. Still in its start-up phase, CN WorldWide is focused on expanding its service offering. Initially targeting shipments between Europe and eastern Canada, including Ontario and Québec, via the Port of Halifax, and the United States, CN WorldWide has since added offices in various locations in Asia, Europe, and North and South America. Customs clearance for Canadian and U.S.-bound traffic was added to the service offering of CN WorldWide starting in April 2006. This service provides an additional attraction to customers while improving CN's rail network fluidity by expediting clearance of customer shipments.

*Significant Cooperation Agreements*

Expanding on CN's routing protocol initiative with connecting carriers that began in 2004, CN concluded routing protocol agreements to streamline the exchange of rail traffic at major gateways. Under the protocols, rail traffic flows are directed through the most efficient interchange locations to improve transit times and asset utilization for the customers of participating carriers. Among others, the following agreements were finalized in 2005:

• In January 2005, CN and BNSF signed a comprehensive routing protocol agreement covering multiple locations on each carrier's respective network, including Noyes, Minnesota, Memphis, Tennessee, and New Orleans, Louisiana; and

• In March 2005, CN and Norfolk Southern Railway ("NS") announced a structured routing protocol to streamline their exchange of rail traffic at major gateways, including Rouses Point, New York, Memphis, Tennessee, and New Orleans, Louisiana.

*Financial Management Initiatives*

As mentioned in the 2006 Highlights, in July 2005, the Board of Directors of the Company approved a share repurchase program, which allowed for the repurchase of up to 32.0 million common shares between July 25, 2005 and July 24, 2006, pursuant to a normal course issuer bid, at prevailing market prices. As at December 31, 2005, 16.0 million common shares had been repurchased for $670 million, at a weighted-average price of $41.90 per share. The Company's previous share repurchase program, initiated in 2004, allowed for the repurchase of up to 28.0 million common shares between November 1, 2004 and October 31, 2005, pursuant to a normal course issuer bid, at prevailing market prices. By the second quarter of 2005, the Company had completed this share repurchase program, repurchasing 28.0 million common shares for $1,021 million, at a weighted-average price of $36.47 per share (20.0 million shares and 8.0 million shares in 2005 and 2004, respectively).

### 3.2 ***Anticipated Developments***

For a discussion of anticipated developments for 2008, please see the section entitled "Strategy Overview" on pages 1 to 3 of the Company's Management's Discussion and Analysis for the year ending December 31, 2007 (the "MD&A"), which are incorporated by reference herein. The MD&A may be found on SEDAR at www.sedar.com.

## ITEM 4 DESCRIPTION OF THE BUSINESS

### 4.1 *Overview*

CN is engaged in the rail and related transportation business. CN's network of approximately 20,400 route miles 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, St. Louis, and Jackson, Miss., with connections to all points in North America. The Company'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. In 2007, the largest commodity group accounted for approximately 20% of revenues. From a geographical standpoint, in 2007, 19% of revenues came from U.S. domestic traffic, 32% from transborder traffic, 23% from Canadian domestic traffic, and 26% from overseas traffic. For more information on CN's commodity groups, including their respective revenues for the last two years and their principal markets and economic drivers, please see pages 5 to 9 of the MD&A, which are incorporated by reference herein.

CN originated approximately 87% of traffic moving along its network in 2007. This allows the Company both to capitalize on service advantages and to build on opportunities to efficiently use assets.

### 4.2 *Commodity Groups*

For a description of the various commodity groups transported by CN, their principal markets, as well as select revenue, revenue ton mile and carload information, please see pages 5 to 9 of the MD&A, which are incorporated by reference herein.

### 4.3 *Competitive Conditions*

For a discussion of the competitive conditions under which CN operates, please see the section entitled "Competition" in the discussion of Business risks located on pages 32 and 33 of the MD&A, which are incorporated by reference herein.

### 4.4 *Labor*

As at December 31, 2007, CN employed a total of 22,696 employees.

For a discussion of CN's labor negotiations, see the section entitled "Labor Negotiations" in the Business risks discussion located on pages 34 and 35 of the MD&A, which are incorporated by reference herein.

### 4.5 *Social Policies*

In addition to its Employment Equity Policy (for Canadian employees) and Equal Employment Opportunity Policy (for American employees), CN maintains a comprehensive Human Rights Policy for Canadian employees at CN and a Prohibited Harassment, Discrimination and Anti-Retaliation Policy for its United States employees. These policies affirm CN's commitment to ensuring that there is no discrimination against any employee or applicant based on grounds of religion, race, sex, nationality, disability or any other prohibited grounds of discrimination. The policy extends to recruitment, selection and compensation practices, as well as to working conditions and the work environment. All Company vice-presidents have been mandated with the responsibility of implementing these policies and ensuring that all work practices are in compliance. Internal complaint procedures have been established

whereby any person covered by the Equal Employment Opportunity Policy or the Prohibited Harassment, Discrimination and Anti-Retaliation Policy can address their questions or concerns to their supervisor and/or human resources manager who will address their complaints.

### 4.6 *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 (the "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, 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 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.

**Canadian Regulation**

The CTA gives railroads in Canada the freedom to negotiate prices according to market forces, subject to certain provisions aimed at protecting shippers. These shipper protections include, *inter alia*, interswitching, final offer arbitration and competitive line rates. Pursuant to interswitching provisions, all shippers within a 30 km radius (approximately 19 miles) of an interchange between two federally regulated railroads have access to both at a prescribed interswitching rate. Final offer arbitration is used in cases of rate disputes between a shipper and a railroad and involves the selection by an arbitrator of either the shipper's or the carrier's rate and service offer. Competitive line rate provisions can be invoked to require an originating railroad to issue to a shipper with sole rail access, a rate covering the movement to the nearest junction with another railroad according to predetermined formulae.

The CTA permits confidential contracts. Furthermore, railroads are subject to common carrier obligations for their services and, in case of breach, shippers may seek redress from the Agency.

When a railroad operator wants to sell or abandon lines, the CTA encourages their sale to short-line operators and provides the framework for line abandonment. The railroads are required to publish a three-year plan for lines it intends to sell or discontinue. For discontinuance, the line must be advertised as being for sale to the public for continued operation and, if no interest is shown, must be offered specifically for sale to applicable federal, provincial and municipal governments as well as urban transit authorities. The entire process is intended to take at most 22 months. The Company's operations are also subject to safety and environmental provisions relating to track standards, equipment standards, transportation of hazardous materials, environmental assessments and certain labor regulations, which are in many respects similar when comparing Canadian and U.S. regulations.

Periodically, a comprehensive review is made by the federal government of the effectiveness of the CTA and other statutes related to transportation. For a further discussion of the last CTA review see the section entitled "Regulation" in the Business risks discussion located on pages 35 to 37 of the MD&A, which are incorporated by reference herein.

**U.S. Regulation**

The STB has jurisdiction over, amongst other things, service levels, carrier practices, car compensation, and limited jurisdiction over carrier rates. It also has jurisdiction over the situations and terms under which one railroad may gain access to another railroad's traffic or facilities, the construction, extension, or abandonment of rail lines, railroad consolidations, and labor protection provisions in connection with the foregoing. The STB's jurisdiction in these areas of rail transportation, including intrastate rail transportation, is exclusive, pre-empting other remedies under federal and state law.

The FRA has jurisdiction over railroad safety and equipment standards, and most rail safety regulation is handled at the federal level. In contrast, however, to the exclusive role of the STB over railroad economic regulation, state and local regulatory agencies have jurisdiction over certain local safety and operating matters and these agencies are becoming more aggressive in their exercise of jurisdiction. State legislatures have also recently enacted new laws in this regard that are intended to regulate railroads more extensively.

Government regulation of the railroad industry is a significant determinant of the competitiveness and profitability of railroads. Deregulation of certain rates and services, plus the ability to enter into confidential contracts, pursuant to the *Staggers Rail Act of 1980* (the "Staggers Act"), has substantially increased the flexibility of railroads to respond to market forces and has resulted in highly competitive rates. Various interests have sought and continue to seek reimposition of government controls on the railroad industry in areas deregulated in whole or in part by the Staggers Act. Additional regulation, changes in regulation and re-regulation of the industry through legislative, administrative, judicial or other action could materially affect the Company.

Following an extended review, in June 2001, the STB issued new regulations governing mergers between Class I Railroads. CN had recommended higher public interest standards for mergers and the new regulations effectively raised the bar for the quality of customer service in all future major railroad mergers. The STB also agreed with CN that foreign-headquartered railroads would be treated the same as U.S.-based railroads under its merger rules.

For a further discussion of government regulation with respect, in particular, to Canada-U.S. Customs and U.S. Homeland Security as well as recent and pending developments in legislative reform, see the section entitled "Regulation" in the Business risks discussion located at pages 35 to 37 of the MD&A, which are incorporated by reference herein.

### 4.7 *Environmental Matters*

**Regulatory compliance**

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. Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed.

In Canada, the matter of environmental permits for the Company is complex because of an overlap between federal and provincial jurisdictions. When projects require approval by federal regulatory authorities, environmental impact assessments are undertaken in accordance with federal requirements. Provincial and municipal environmental legislation may be applicable to railway activities if such legislation does not aim to regulate the management or operations of railways. Therefore, the Company does not apply systematically for provincial, municipal or local environmental permits for its railway operations in Canada except (i) where obtaining and complying with such permits would not interfere with the operations or management of its railway activities, (ii) where permitting issues were primarily of a provincial, municipal or local nature, (iii) where the Company or the governmental authority thought it was necessary to obtain such permits to continue minor aspects of its railway operations or maintenance, or (iv) where the absence of a permit may affect a third party (such as a customer or a supplier). Because of the multiple jurisdictions involved and the extensive provincial legislative authority to regulate environmental matters, there can be no assurance that additional provincial, municipal or local environmental permits will not be required in the future. The Company may incur additional expenses or changes in its operations if such additional permits were to be required in the future.

See Note 18 – Major commitments and contingencies (paragraph D.), to the Company's 2007 Annual Consolidated Financial Statements (the "Financial Statements"), for a further discussion of Environmental Matters, as well as the section entitled Environmental Claims, on pages 27, 28 and 33 of the MD&A. The Financial Statements and MD&A are available on SEDAR at www.sedar.com.

**Environmental Policy**

CN is committed to conducting its operations and activities in a manner that protects the natural environment. CN considers protecting the environment a fundamental corporate social responsibility governing its activities. Consequently, CN has implemented comprehensive environmental management programs.

CN makes the following commitments and expects its employees to act accordingly:

1. To integrate environmentally responsible actions throughout all significant aspects of CN's activities.
2. To respect the applicable laws and regulations and adopt the required standards, procedures, contingency measures and management systems in order to ensure CN operations are managed safely, ecologically and in a sustainable way.
3. To take necessary measures in order to prevent pollution, to conserve and use rationally the natural resources required for CN operations and implement relevant emergency response plans and procedures.
4. To take active measures to reduce green house gas emissions while facilitating the shift of traffic to rail from less environmentally efficient modes of transportation.
5. To communicate to management, employees and contractors CN's commitment to improving health, safety and the environment and to providing training adapted to their needs.

6. To systematically evaluate CN's environmental performance through appropriate audits and report progress.

### 4.8 *Legal Matters*

**Legal Proceedings**

As of the date hereof, the only legal proceedings, to which CN was a party, involving claims for damages in excess of 10% of its current assets, are described below. It is not currently expected, however, that such litigation proceedings will have a material adverse effect on the consolidated financial position or results of operations of CN. The Company will regularly assess its position as events progress.

*"In re African-American Slave Descendants Litigation"*

This matter is a slavery reparations case. The plaintiffs, a proposed class representing descendants of slaves, brought this action seeking payment for work performed by slaves between 1607 and 1865. The defendants include numerous major corporations, among them CNR, Norfolk Southern Corp., Union Pacific Corporation, CSX Corporation, Fleet Boston Financial Corp., Aetna Inc., Brown and Williamson Tobacco, Lehman Bros. Inc., Ligget Group Inc., New York Life Insurance Company, R.J. Reynolds Tobacco Company, Society of Lloyds, Loews Inc. and JP Morgan Chase & Co. The amount claimed would be in the trillions of dollars, some part of which would be claimed from IC, a subsidiary of CN. The Company is contesting these proceedings.

CNR was first named as a defendant in slavery reparations litigation in a complaint filed on September 4, 2002 in Louisiana.

The Louisiana complaint was consolidated in multi-district litigation proceedings in Chicago in the U.S. District Court for the Northern District of Illinois in Chicago, Illinois. Plaintiffs also filed cases in California, Texas, Illinois, New Jersey and New York. CNR is named as a defendant in the Louisiana and California actions.

In 2005, the United States District Court dismissed the proceedings with prejudice, ruling that only the legislative or executive branches of government could decide reparations issues. The U.S. Court of Appeals for the Seventh Circuit modified that dismissal for most of the plaintiffs to a dismissal without prejudice, due to their lack of standing to bring a claim in federal court. For those plaintiffs suing as the legal representatives of the estates of slaves, their claims were dismissed with prejudice due to the expiration of the statute of limitations. The claims of plaintiffs who alleged violations of state consumer fraud or consumer protection statutes were remanded to the District Court for further proceedings.

*Sydney Tar Ponds Lawsuit*

A lawsuit involving more than 350 plaintiffs was instituted on March 25, 2004 in Nova Scotia against Hawker Siddeley Canada Inc., Sydney Steel Corp., the Nova Scotia government, the Canadian government, Domtar Inc., and CN. The plaintiffs are seeking compensation for health problems and property losses due to soil and water contamination resulting from previous industrial activities near Sydney, Nova Scotia.

The plaintiffs seek to hold the defendants liable for battery, nuisance, trespassing, negligence, harm and injuries, family losses, as well as aggravated, punitive and additional damages. No specific amount of damages is included in the claim.

The court action is still in the process of being certified as a class action. To date, none of the allegations contained in the claim have been proven in court.

*Paul Band Litigation*

On February 6, 2006, the Paul Indian Band filed a lawsuit in the Court of Queen's Bench of Alberta against CN and the Alberta and Canadian governments. The various claims in the lawsuit, totaling $775 million in the aggregate, are for alleged damages and economic losses suffered as a result of an oil spill from railcars into Wabamun Lake, Alberta, bordering the Paul Band reserve lands, following the derailment of a CN train on August 3, 2005. The plaintiffs are seeking specific damages of $500 million against CN, including $50 million in punitive damages, with the balance sought from the federal and Alberta governments.

To date, none of the allegations contained in the claim have been proven in court.

See pages 26 and 27 of the MD&A for a general discussion of personal injury and other claims.

**Aboriginal Claims**

CN and its predecessor companies have acquired lands throughoutCanada from the Crown, including certain lands contained in aboriginal reserves. A portion of the Company's network, primarily in British Columbia, is currently operated on these lands.

The Company believes that it possesses unrestricted and absolute title to lands acquired out of aboriginal reserves but, in recent years, some aboriginal bands have claimed to have a continuing legal interest in such lands and they allege this interest prohibits the Company from disposing of the lands when they are no longer needed for railway purposes, except by allowing them to revert to the Crown for the benefit of aboriginals. This issue is one which will ultimately be decided by the courts but, regardless of the outcome, there is no perceived material adverse effect as the right of the Company to continue to occupy and operate over such lands is not being called into question.

As the issues surrounding aboriginal claims are complex and involve not only private interests but fiduciary and other obligations of the Government of Canada, CN has agreed with the Government not to sell or otherwise dispose of land which is not essential to its rail operations and which is located in, or adjacent to, an aboriginal reserve, unless each of CN and the Government are satisfied that there is no legitimate aboriginal claim with respect to such land. In addition, CN has agreed to convey to the Government, for no consideration, any land not integral to its rail operations which may be necessary to settle legitimate aboriginal claims with respect to such land, or lands which were formerly reserve lands and which have become non-rail assets. The Government of Canada, for its part, has agreed that it will provide the necessary compensation for settlement of legitimate aboriginal claims which would otherwise result in CN having to relinquish land essential to its rail network, unless such claims arise out of, or are substantially based upon, willful, known, negligent or fraudulent acts or omissions of CN which adversely affected the rights or interests of aboriginal people.

**4.9 *Risk Factors***

A description of risks affecting CN and its business appears under the heading "Business risks" located on pages 32 to 37 of the MD&A, which pages are incorporated by reference herein.

**ITEM 5 DIVIDENDS**

The Company has declared dividends in line with its overall financial performance and cash flow generation. The Board of Directors makes decisions on dividend payout on a quarterly basis. Consistent with this practice, the quarterly rate of $0.125 per share, starting with the first quarter of 2005, was increased to $0.1625 per share, starting with the first quarter of 2006; the quarterly dividend was next increased to $0.21 per share, starting with the first quarter of 2007 and to $0.23 per share, starting with the first quarter of 2008. There can be no assurance as to the amount or timing of such dividends in the future.

## ITEM 6 DESCRIPTION OF CAPITAL STRUCTURE

### 6.1 *General Description of Capital Structure*

The authorized share capital of CN consists of an unlimited number of common shares, an unlimited number of Class A Preferred Shares issuable in series and an unlimited number of Class B Preferred Shares issuable in series, all without par value.

***Common Shares***

The common shares carry and are subject to the following rights, privileges, restrictions and conditions described below:

*Voting:* Each common share entitles its holder to receive notice of and to attend all general and special meetings of shareholders of CN, other than meetings at which only the holders of a particular class or series of shares are entitled to vote, and each such common share entitles its holder to one vote.

*Dividends:* The holders of common shares are, at the discretion of the Directors, entitled to receive, out of any amounts properly applicable to the payment of dividend, and after the payment of any dividends payable on any Preferred Shares, any dividends declared and payable by CN on the common shares.

*Dissolution*: The holders of common shares shall be entitled to share equally in any distribution of the assets of CN upon the liquidation, dissolution or winding-up of CN or other distribution of its assets among its shareholders. Such participation is subject to the rights, privileges, restrictions and conditions attaching to any issued and outstanding Preferred Shares or shares of any other class ranking prior to the common shares.

***Preferred Shares***

The Class A Preferred Shares and the Class B Preferred Shares are issuable in series and, subject to CN's Articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. The holders of Class A Preferred Shares or Class B Preferred Shares shall not be entitled to vote at meetings of shareholders otherwise than as provided by law, and holders of Class A or Class B Preferred Shares shall not be entitled to vote separately as a class except as provided by law.

There are neither any Class A Preferred Shares nor any Class B Preferred Shares currently issued and outstanding.

### 6.2 *Share Ownership Constraints*

CN's Articles provide that where the total number of voting shares held, beneficially owned, or controlled, directly or indirectly, by any one person together with his or her associates exceeds 15%, no person shall exercise the voting rights attached to the voting shares held, beneficially owned or controlled, directly or indirectly, by such person or his or her associates. Furthermore, all dividends attributable to the percentage of voting shares held by such persons in excess of 15% shall be forfeited, including any cumulative dividend. CN's Articles confer on the Board of Directors all powers necessary to give effect to the ownership restrictions, including the ability to pay dividends or to make other distributions which would otherwise be prohibited if the event giving rise to the prohibition was inadvertent or of a technical nature or it would otherwise be inequitable not to pay the dividends or make the distribution. CN's Articles provide that the Board of Directors may adopt by-laws concerning the administration of the constrained share provisions described above, including by-laws requiring a shareholder to furnish a declaration indicating whether he or she is the beneficial owner of the shares and whether he or she is an associate of any other shareholder. In

addition, CN is also authorized to refuse to recognize the ownership rights that would otherwise be attached to any voting shares held, beneficially owned or controlled, directly or indirectly, contrary to the share ownership constraint. Finally, CN has the right, for the purpose of enforcing any constraint imposed pursuant to its Articles, to sell, as if it were the owner thereof, any voting shares that are owned or that the Directors determine may be owned, by any person or persons contrary to such share ownership constraint.

### 6.3 *Ratings of Debt Securities*

Various classes of CN's outstanding securities have been rated by several rating organizations as described in detail below, as of the date hereof.

| | **Dominion Bond Rating Service** | **Moody's Investors Service** | **Standard & Poor's** |
|---|---|---|---|
| Long-Term Debt | A (low) | A3 | A- |
| Commercial Paper | R-1 (low) | Not rated | A-2 |

The above-noted ratings are given the following credit characteristics by the various rating agencies:

***Dominion Bond Rating Service Limited ("DBRS")***

- Long-term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than AA rated securities. While "A" is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. This rating falls within the third highest of DBRS's ten long-term debt rating categories which range from "AAA" to "D". Reference to "low" denotes a standing in the lower end of a rating category.

- Commercial paper rated R-1 (low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. This rating falls within the third highest of DBRS's ten short-term debt rating categories which range from "R-1 (high)" to "D".

***Moody's Investors Service ("Moody's")***

- Long-term debt obligations rated A are considered upper-medium grade and are subject to low credit risk. This rating falls within the third highest of Moody's nine generic long-term obligation rating categories which range from "Aaa" to "C". The modifier "3" indicates a ranking in the lower end of that generic rating category.

***Standard & Poor's ("S&P")***

- Long-term debt obligations rated A are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The obligor's capacity to meet its financial commitment on the obligations is, however, still strong. This rating falls within the third highest of S&P's ten major long-term credit rating categories which range from "AAA" to "D". The minus (-) sign indicates a standing in the lower end within a major category.

- Commercial paper rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory. This rating falls within the second highest in S&P's six short-term credit rating categories which range form "A-1" to "D".

The ratings of CN's securities described above should not be construed as a recommendation to buy, sell, or hold CN securities. Ratings may be revised or withdrawn at any time by the rating agencies.

## ITEM 7 TRANSFER AGENT AND REGISTRAR

In Canada, the transfer agent and registrar for each class of CN's publicly issued securities is Computershare Trust Company of Canada and, in the United States, the co-transfer agent and co-registrar is Computershare Trust Company, N.A., both of which maintain registers of transfers for those securities at the locations specified below:

Computershare Trust Company of Canada
100 University Ave., 9th Floor
Toronto, Ontario M5J 2Y1
Toll Free Tel: 1-800-564-6253
Toll Free Fax: 1-888-453-0330
Email: service@computershare.com
Web: www.computershare.com

**Co-transfer agent and co-registrar:**

Computershare Trust Company, N.A.
350 Indiana St Suite 800
Golden, Colorado 80401
Telephone: (303) 262-0600

## ITEM 8 MARKET FOR SECURITIES

### 8.1 *Trading Price and Volume*

CN's common shares are listed on both the Toronto Stock Exchange ("TSX") and the New York Stock Exchange under the stock symbols CNR and CNI, respectively. The following table sets forth the price ranges and aggregate trading volumes of the common shares on the TSX for each month of 2007.

| MONTH | HIGH | LOW | VOLUME |
|---|---|---|---|
| January | 53.99 | 48.89 | 31,808,587 |
| February | 55.48 | 51.07 | 27,026,339 |
| March | 54.00 | 50.25 | 28,848,934 |
| April | 57.73 | 50.44 | 33,747,223 |
| May | 60.00 | 55.01 | 24,479,653 |
| June | 59.26 | 52.41 | 30,717,107 |
| July | 61.00 | 54.36 | 39,090,514 |
| August | 57.20 | 49.34 | 35,811,843 |
| September | 58.76 | 54.67 | 27,906,796 |
| October | 57.13 | 49.77 | 48,943,101 |
| November | 52.81 | 45.17 | 32,461,057 |
| December | 52.61 | 46.00 | 31,167,430 |

**8.2** ***Prior Sales***

In September 2007, CN used up the remaining borrowing capacity under its shelf prospectus and registration statement to issue a U.S.$550 million debt offering composed of U.S.$250 million Notes and U.S.$300 million Debentures, which is detailed below.

The following table summarizes the details of that public offering:

| Security | Notes | Debentures |
|---|---|---|
| Size of Offering: | U.S.$250,000,000 | U.S.$300,000,000 |
| Maturity Date: | November 15, 2017 | November 15, 2037 |
| Coupon Rates: | 5.85% | 6.375% |
| Net Proceeds of Issue: | U.S.$247,582,500 | U.S.$296,604,000 |
| Public Offering Price: | 99.683% per note | 99.743% per debenture |
| Application of Proceeds: | Reduce accounts receivable securitization program and repay a portion of outstanding commercial paper. | |

In December 2007, CN filed a shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), expiring in January 2010, providing for the issuance by CN, of up to U.S.$2.5 billion of debt securities in Canadian and U.S. markets in one or more offerings. CN expects to use the net proceeds from the sale of debt securities under the shelf prospectus and registration statement for general corporate purposes, including the redemption and refinancing of outstanding indebtedness, share repurchases, acquisitions and other business opportunities.

In the ordinary course of business, the Company also issued commercial paper with maturities of less than 12 months of which a total of CDN$122 million (CDN$114 million and U.S.$8 million) was outstanding as at December 31, 2007.

## ITEM 9 DIRECTORS AND EXECUTIVE OFFICERS

**9.1** ***Directors***

The Directors are elected by the Shareholders at the Annual General Meeting, and hold office until their term expires at the following Annual General Meeting, subject to resignation, retirement, or re-election. The following table lists the Directors of the Company as of the date hereof:

| Name and Province or State of Residence | Date of First Election to Board | Principal Occupation within the Preceding Five Years |
|---|---|---|
| Michael R. Armellino, CFA<br>New Jersey, U.S.A. | May 7, 1996 | Retired Partner, The Goldman Sachs Group, LP<br>(investment bank) |
| A. Charles Baillie, O.C., LL.D.<br>Ontario, Canada | April 15, 2003 | Retired Chairman and Chief Executive Officer,<br>The Toronto-Dominion Bank (bank) |
| Hugh J. Bolton, FCA<br>Alberta, Canada | April 15, 2003 | Chairman, Epcor Utilities Inc. (energy and energy-related services provider) |
| J.V. Raymond Cyr, O.C., LL.D.<br>Québec, Canada | March 29, 1995 | Chairman, PolyValor Inc.<br>(University research valorization fund) |
| Ambassador Gordon D. Giffin<br>Georgia, U.S.A. | May 1, 2001 | Senior Partner, McKenna Long & Aldridge (law firm) |
| James K. Gray, O.C., A.O.E., LL.D.,<br>Alberta, Canada | July 4, 1996 | Corporate Director and Former Chairman and Chief Executive Officer, Canadian Hunter Exploration Ltd. (natural gas company) |
| E. Hunter Harrison<br>Florida, U.S.A. | December 7, 1999 | President and Chief Executive Officer, CN; Executive Vice-President and Chief Operating Officer, CN |
| Edith E. Holiday<br>District of Columbia, U.S.A. | June 1, 2001 | Corporate Director and Trustee, and former General Counsel, United States Treasury Department and Secretary of Cabinet,<br>The White House |
| V. Maureen Kempston Darkes, O.C.,<br>D. Comm. LL.D.<br>Florida, U.S.A. | March 29, 1995 | Group Vice-President and President Latin America, Africa and Middle East, General Motors Corporation (automotive manufacturer) |
| Robert H. Lee, C.M., O.B.C., LL.D.<br>British Columbia, Canada | April 21, 2006 | Chairman, Prospero Group of Companies (real estate investment, financing, sales and property management group of companies) |
| Denis Losier, LL.D.<br>New Brunswick, Canada | October 25, 1994 | President and Chief Executive Officer, Assumption Life (life insurance company) |
| The Hon. Edward C. Lumley, P.C.,<br>LL.D.<br>Ontario, Canada | July 4, 1996 | Vice-Chair, BMO Capital Markets (investment bank) |
| David G.A. McLean, O.B.C., LL.D.,<br>British Columbia, Canada | August 31, 1994 | Chair and Chief Executive Officer, The McLean Group (real estate investment, film and television facilities, communications and helicopter charters) |
| Robert Pace<br>Nova Scotia, Canada | October 25, 1994 | President and Chief Executive Officer,<br>The Pace Group (private holding company) |

**Committee Membership**

The membership of each Board committee is composed of the following Directors:

*Audit Committee*

Michael R. Armellino, A. Charles Baillie, Hugh J. Bolton, Robert H. Lee, Denis Losier (chair), Robert Pace.

*Corporate Governance and Nominating Committee*

Hugh J. Bolton, J.V. Raymond Cyr, James K. Gray, Edith E. Holiday, Denis Losier, David G. A. McLean (chair), Robert Pace.

*Environment, Safety and Security Committee*

J.V. Raymond Cyr (chair), Ambassador Gordon D. Giffin, James K. Gray, Edith E. Holiday, V. Maureen Kempston Darkes, The Hon. Edward C. Lumley, David G. A. McLean.

*Finance Committee*

Michael R. Armellino, A. Charles Baillie (chair), Ambassador Gordon D. Giffin, V. Maureen Kempston Darkes, Robert H. Lee, The Hon. Edward C. Lumley.

*Human Resources and Compensation Committee*

A. Charles Baillie, Hugh J. Bolton, Ambassador Gordon D. Giffin, James K. Gray, Edith E. Holiday, The Hon. Edward C. Lumley, David G. A. McLean, Robert Pace (chair).

*Investment Committee of CN's Pension Trust Funds*

Michael R. Armellino, J.V. Raymond Cyr, James K. Gray, Edith E. Holiday, V. Maureen Kempston Darkes, Robert H. Lee, Denis Losier, The Hon. Edward C. Lumley (chair), David G. A. McLean, Robert Pace.

*Strategic Planning Committee*

Michael R. Armellino (chair), A. Charles Baillie, Hugh J. Bolton, J.V. Raymond Cyr, Ambassador Gordon D. Giffin, James K. Gray, E. Hunter Harrison, Edith E. Holiday, V. Maureen Kempston Darkes, Robert H. Lee, Denis Losier, The Hon. Edward C. Lumley, David G. A. McLean, Robert Pace.

**9.2 *Audit Committee Disclosure***

*Composition of the Audit Committee*

The Audit Committee is composed of six "independent" directors, namely, Denis Losier, chair of the Committee, Michael R. Armellino, A. Charles Baillie, Hugh J. Bolton, Robert H. Lee and Robert Pace.

*Education and Relevant Experience of the Audit Committee Members*

The board of Directors believes that the composition of the Audit Committee reflects a high level of financial literacy and experience. Each member of the committee has been determined by the board to be financially literate, as such term is defined under Canadian and United States securities laws and regulations and the New York Stock Exchange Corporate Governance Standards. The board has made such determination based on the education and experience of each committee member. The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the committee:

Mr. Losier is President and Chief Executive Officer, Assumption Life. Mr. Losier held various cabinet level positions with the government of the Province of New Brunswick, from 1989 to 1994. He is a director of Enbridge Gas New Brunswick Limited Partnership, Plazacorp Retail Properties Ltd. and NAV CANADA. Mr. Losier holds a Masters of Economics from the University of Western Ontario.

Mr. Armellino is a Retired Partner, The Goldman Sachs Group, LP. From 1991 to 1994, Mr. Armellino was chair and Chief Executive Officer of Goldman Sachs Asset Management. Prior to 1991, he had held various positions at Goldman, Sachs & Co., including those of senior transportation analyst and Partner in Charge of Research. He is a Chartered Financial Analyst. Mr. Armellino holds an MBA in finance from the Stern School of Business (New York University), New York and has more than 25 years of experience as a securities analyst.

Mr. Baillie retired as chair of The Toronto-Dominion Bank in April 2003, and as Chief Executive Officer of the bank in December 2002. Mr. Baillie is a director and member of the audit committee of Telus Corporation. He is also a director and chair of the audit committee of George Weston Limited. Mr. Baillie holds an MBA from Harvard Business School.

Mr. Bolton is the chair of the board of directors of EPCOR Utilities Inc. and the non-executive chairman of Matrikon Inc. Mr. Bolton is a director and chair of the audit committee of Teck Cominco Limited and of The Toronto-Dominion Bank. He is also a director and member of the audit committee of WestJet Airlines Ltd. From 1992 to 1998, Mr. Bolton was chair and Chief Executive Partner of Coopers & Lybrand Canada (now PricewaterhouseCoopers). Mr. Bolton was a partner of Coopers & Lybrand for 34 years and a public accountant and auditor with that firm for 40 years. He is a fellow of the Alberta Institute of Chartered Accountants. He holds an undergraduate degree in economics from the University of Alberta. Mr. Bolton is a member of four audit committees of public companies including CN. The Board has determined that such service in no way impaired Mr. Bolton's ability to effectively serve on the Audit Committee of the Company.

Mr. Lee is Chairman of the Prospero Group of Companies, which includes real estate investment, financing, sales and property management businesses. He is a director and member of the audit committee of Wall Financial Corporation and he is chairman of UBC Properties Trust. Mr. Lee holds a Bachelor of Commerce degree from the University of British Columbia.

Mr. Pace is the President and Chief Executive Officer, The Pace Group. Mr. Pace is also a member of the board of directors of Maritime Broadcasting Systems Limited, High Liner Foods Incorporated, Hydro One and is board chair of Overland Realty Limited. Mr. Pace holds an MBA and an LL.B Law Degree from Dalhousie University in Halifax, Nova Scotia, and has more than 20 years of business experience.

KPMG LLP has served as the Company's auditors since 1992. For the years ended December 31, 2007 and 2006, the fees for audit, audit related, tax and other services provided to the Company by KPMG LLP were the following:

| Fees | 2007[1] | 2006[1] |
|---|---|---|
| Audit | $3,170,000 | $3,009,000 |
| Audit Related | 1,371,000 | 930,000 |
| Tax | 603,000 | 479,000 |
| Other | — | — |
| **Total Fees** | $5,144,000 | $4,418,000 |

[1]Fees rounded to the nearest thousand.

Pursuant to the terms of its charter, the Audit Committee approves all audit and audit-related services, audit engagement fees and terms and all non-audit engagements with the independent auditor. The Audit Committee pre-approved all the services performed by CN's independent auditors for audit-related and non-audit related services for the years ended December 31, 2007 and 2006 that were required to be pre-approved.

A discussion of the nature of the services under each category is described below.

**Audit fees**

Consists of fees incurred for professional services rendered by the auditors in relation to the audit of the Company's consolidated annual financial statements and those of its subsidiaries and the audit relating to the Company's internal control over financial reporting.

**Audit-related fees**

Audit-related fees were incurred for professional services rendered by the auditors in relation to the audit of the financial statements for the Company's pension plans, and for attestation services in connection with reports required by statute or regulation and due diligence and other services, including comfort letters, in connection with the issuance of securities.

**Tax fees**

Consists of fees incurred for consultations on cross-border tax implications for employees and tax compliance.

**Other fees**

Nil

The mandate of the Audit Committee, attached as Schedule A to this AIF, provides that the Audit Committee determines which non-audit services the external auditors are prohibited from providing, approves audit services and pre-approves permitted non-audit services to be provided by the external auditors. CN's Audit Committee and the Board of Directors have adopted resolutions prohibiting the Company from engaging KPMG LLP to provide certain non-audit services to the Company and its subsidiaries, including bookkeeping or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions, or contribution in-kind reports, actuarial services, internal audit outsourcing services, management functions or human resources functions, broker or dealer, investment adviser, or investment banking services and legal services and expert services unrelated to the audit. Pursuant to such resolutions, the

Company may engage KPMG LLP to provide non-audit services, including tax services, other than the prohibited services listed above, but only if the services have specifically been pre-approved by the Audit Committee.

### 9.3 *Executive Officers*

As of the date hereof, the following are the senior executive officers of the Company:

| Name and Province or State of Residence | Position | Principal Occupation within the Preceding Five Years |
|---|---|---|
| E. Hunter Harrison<br>Florida, U.S.A. | President and Chief Executive Officer | President and Chief Executive Officer; Executive Vice-President and Chief Operating Officer |
| Russell Hiscock<br>Québec, Canada | President and Chief Executive Officer, CN Investment Division | General Manager; Manager Common Stocks (Canada), CN Investment Division |
| Keith E. Creel<br>Illinois, U.S.A. | Executive Vice-President, Operations | Senior Vice-President, Eastern Region; Senior Vice-President of the Western Canada Region; Vice-President of the Prairie Division; General Manager – Michigan Zone, Midwest Division |
| Les P. Dakens<br>Ontario, Canada | Senior Vice-President, People | Senior Vice-President, People; Senior Vice-President, Corporate Services |
| Sameh Fahmy<br>Alberta, Canada | Senior Vice-President, Engineering, Mechanical and Supply Management | Senior Vice-President, Engineering, Mechanical and Supply Management; Vice-President, Engineering, Mechanical and Supply Management |
| Sean Finn<br>Québec, Canada | Senior Vice-President, Public Affairs, Chief Legal Officer and Corporate Secretary | Senior Vice-President Public Affairs, Chief Legal Officer and Corporate Secretary; Chief Legal Officer and Corporate Secretary |
| James M. Foote<br>Illinois, U.S.A. | Executive Vice-President, Sales and Marketing | Executive Vice-President, Sales and Marketing |
| Fred R. Grigsby<br>Québec, Canada | Senior Vice-President and Chief Information Officer | Senior Vice-President and Chief Information Officer; Vice-President and Chief Information Officer |
| Stan Jablonski<br>Québec, Canada | Senior Vice-President, Sales | Senior Vice-President, Sales; Vice-President, Sales; Vice-President, Forest Products |
| Claude Mongeau<br>Québec, Canada | Executive Vice-President and Chief Financial Officer | Executive Vice-President and Chief Financial Officer |

| Name and Province or State of Residence | Position | Principal Occupation within the Preceding Five Years |
|---|---|---|
| Jean-Jacques Ruest<br>Québec, Canada | Senior Vice-President, Marketing | Senior Vice-President, Marketing; Vice-President, Marketing; Vice-President, Industrial Products; Vice-President, Petroleum and Chemicals |
| Gordon T. Trafton<br>Illinois, U.S.A. | Senior Vice-President, Southern Region | Senior Vice-President, Southern Region; Vice-President, Midwest and Gulf Divisions; Vice-President of the Midwest Division; Vice-President of the Wisconsin Central Division |
| Jim Vena,<br>Alberta, Canada | Senior Vice-President, Western Region | Senior Vice-President, Eastern Region; Vice- President, Operations; Vice-President, Champlain District; General Manager, Prairie |

The senior executive officers are appointed by the Board of Directors and hold office until their successors are appointed subject to resignation, retirement or removal by the Board of Directors.

As at December 31, 2007, the Directors and the members of the executive committee, including the senior executive officers mentioned above, of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, or held options to exercise an aggregate of approximately 10.1 million common shares of the Company, representing approximately 2.1% of the outstanding common shares.

**9.4** ***Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To the knowledge of the Company and based upon information provided to it by the Company's Directors and executive officers, none of such Directors or executive officers is or has been, in the last 10 years, a director or executive officer of any company that, while such person was acting in that capacity: (a) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; (b) was subject to an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for the following:

(i) Mr. Baillie, a Director of the Company, was a director of Dana Corporation, which filed voluntary petitions for reorganization under Chapter 11 of the *U.S. Bankruptcy Code* on March 3, 2006. Dana's European, South American, Asian-Pacific, Canadian and Mexican subsidiaries are not included in the Chapter 11 filing. Dana Corporation successfully emerged from Chapter 11 reorganization in February 2008. Mr. Baillie is no longer a director of Dana Corporation;

(ii) Mr. Cyr, a Director of the Company, was a director of Air Canada when it voluntarily filed for protection under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") in April 2003 and was a director of Cable Satisfaction International Inc. when it voluntarily filed for protection under the CCAA in July 2003. Air Canada successfully emerged from the CCAA proceedings and was restructured pursuant to a plan of

arrangement in September 2004 and Cable Satisfaction International Inc.'s second amended and restated plan of arrangement and reorganization was approved by its creditors and sanctioned by the Québec Superior Court in March 2004. Mr. Cyr is no longer a director of Air Canada and Cable Satisfaction International Inc.;

(iii) Mr. Lumley, a Director of the Company, was a director of Air Canada when it voluntarily filed for protection under the CCAA in April 2003. Air Canada successfully emerged from the CCAA proceedings and was restructured pursuant to a plan of arrangement in September 2004. Mr. Lumley is no longer a director of Air Canada; and

(iv) Mr. Claude Mongeau, the Executive Vice-President and Chief Financial Officer of the Company, was acting as a director of 360networks Corporation prior to the latter voluntarily filing for protection under the CCAA in June 2001. 360networks Corporation underwent restructuring in 2002 and sold its Canadian assets to Bell Canada in November 2004. Mr. Mongeau is no longer a director of 360networks Corporation.

**ITEM 10 INTEREST OF EXPERTS**

KPMG LLP is the external auditor who prepared the Report of Independent Registered Public Accounting Firm to the Board of Directors and Shareholders of CN relating to the effectiveness of internal controls over financial reporting and relating to the audit of the 2007 annual consolidated financial statements and notes thereto prepared under U.S. generally accepted accounting principles. We are advised that, as at the date hereof, the members of KPMG are independent in accordance with the Rules of the Code of Ethics of the Ordre des comptables agréés du Québec.

**ITEM 11 ADDITIONAL INFORMATION**

Additional information regarding CN can be found on SEDAR atwww.sedar.com. Additional financial information is provided in CN's Annual Consolidated Financial Statements and Management's Discussion & Analysis for its most recently completed financial year. Additional information, including Directors' and officers' remuneration and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular prepared in respect of its annual meeting of shareholders to be held on April 22, 2008 (the "Circular"). The Circular will become available on SEDAR at www.sedar.com on or about March 20, 2008.

**SCHEDULE A**

CHARTER OF THE AUDIT COMMITTEE

1. Membership and Quorum

- a minimum of five Directors appointed by the Board;
- only Independent (as determined by the Board) Directors may be appointed. A member of the Audit Committee may not, other than in his or her capacity as a Director or member of a board committee and subject to the exceptions provided in Canadian and U.S. laws and regulations, accept directly or indirectly any fee from CN or any subsidiary of CN nor be an affiliated person of CN or any subsidiary of CN;
- each member must be “financially literate” (as determined by the Board);
- at least one member must be an “audit committee financial expert” (as determined by the Board);
- quorum of majority of members.

2. Frequency and Timing of Meetings

- normally one day prior to CN board meetings;
- at least five times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

3. Mandate

The responsibilities of the Audit Committee include the following:

A. Overseeing financial reporting

- monitoring the quality and integrity of CN’s accounting and financial reporting process through discussions with management, the external auditors and the internal auditors;
- reviewing with management and the external auditors, the annual audited financial statements to be included in the annual report of CN, including CN’s MD&A disclosure and earnings press releases prior to their release, filing and distribution;
- reviewing with management and the external auditors, quarterly consolidated financial statements of CN and accompanying information, including CN’s MD&A disclosure and earnings press releases prior to their release, filing and distribution, and reviewing the level and type of financial information provided, from time to time, to financial markets;
- reviewing the financial information contained in the annual information form and other reports or documents, financial or otherwise, requiring Board approval;
- reviewing the procedures in place for the review of CN’s disclosure of financial information extracted or derived from CN’s financial statements and periodically assessing the adequacy of those procedures;
- reviewing with the external auditors and management, the quality, appropriateness and disclosure of CN’s accounting principles and policies, underlying assumptions and reporting practices, and any proposed changes thereto;

- reviewing any analysis or other written communications prepared by management, the internal auditors or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative generally accepted accounting principles methods;

- reviewing the external auditors' report on the consolidated financial statements of CN and on the financial statements of CN's Pension Trust Funds;

- reviewing the external auditors' quarterly review engagement report;

- reviewing the compliance of management certification of financial reports with applicable legislation;

- reviewing any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of CN and the appropriateness of the disclosure thereof in the documents reviewed by the Committee;

- reviewing the results of the external audit, any significant problems encountered in performing the audit, and management's response and/or action plan related to any Management Letter issued by the external auditors and any significant recommendations contained therein.

B. Monitoring risk management and internal controls

- receiving periodically management's report assessing the adequacy and effectiveness of CN's disclosure controls and procedures and systems of internal control;

- reviewing CN's risk assessment and risk management policies, including CN's insurance coverage (annually and as otherwise may be appropriate);

- assisting the Board with the oversight of CN's compliance with applicable legal and regulatory requirements;

- reviewing CN's delegation of financial authority;

- making recommendations with respect to the declaration of dividends;

- while ensuring confidentiality and anonymity, establishing procedures for the receipt, retention and treatment of complaints received by CN regarding accounting, internal accounting controls or auditing matters or employee concerns regarding accounting or auditing matters;

- requesting the performance of any specific audit as required.

C. Monitoring internal auditors

- ensuring that the chief internal auditor reports directly to the Audit Committee;

- regularly monitoring the internal audit function's performance, its responsibilities, staffing, budget and the compensation of its members;

- reviewing annually the internal audit plan;

- ensuring that the internal auditors are accountable to the Audit Committee and to the Board.

D. Monitoring external auditors

- recommending to the Board and CN's shareholders the retention and, if appropriate, the removal of external auditors, evaluating and remunerating them, and monitoring their qualifications, performance and independence;

- approving and overseeing the disclosure of all audit, review and attest services provided by the external auditors, determining which non-audit services the external auditors are prohibited from providing, and pre-approving and overseeing the disclosure of permitted non-audit services by the external auditors to CN or any of its subsidiaries, in accordance with applicable laws and regulations;

- reviewing recommendations to shareholders on the continued engagement or replacement of external auditors, for CN and CN's Pension Trust Funds;

- ensuring that the external auditors are accountable to the Audit Committee and to the Board;

- discussing with the external auditors the quality and not just the acceptability of CN's accounting principles, including (i) all critical accounting policies and practices used, (ii) any alternative treatments of financial information that have been discussed with management, the ramification of their use and the treatment preferred by the external auditors, as well as (iii) any other material written communications between CN and the external auditors (including a disagreement, if any, with management and any audit problems or difficulties and management's response);

- reviewing at least annually, a report by the external auditors describing their internal quality-control procedures; any material issues raised by their most recent internal quality-control review of their firm, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more audits carried out by them, to the extent available, and any steps taken to deal with any such issues;

- reviewing at least annually, the formal written statement from the external auditors stating all relationships the external auditors have with CN and confirming their independence, and holding discussions with the external auditors as to any relationship or services that may impact their objectivity or independence;

- reviewing hiring policies for employees or former employees of CN's firm of external auditors;

- ensuring the rotation of lead, concurring and other audit partners, to the extent required by Canadian Corporate Governance Standards and U.S. Corporate Governance Standards.

E. Evaluating the performance of the Audit Committee

- ensuring that processes are in place to annually evaluate the performance of the Audit Committee.

In addition to the above responsibilities, the Audit Committee may discharge the responsibilities of the Finance Committee if no meeting of the Finance Committee is scheduled to be held in the immediate future.

Because of the Audit Committee's demanding role and responsibilities, the Board chair, together with the Corporate Governance and Nominating Committee chair, reviews any invitation to Audit Committee members to join the audit committee of another entity. Where a member of the Audit Committee simultaneously serves on the audit committee of more than three public companies, including CN, the Board determines whether such simultaneous service impairs the ability of such member to effectively serve on the Audit Committee and either requires a correction to the situation or discloses in CN's Information Circular that there is no such impairment.

As appropriate, the Audit Committee may retain independent advisors to help it carry out its responsibilities, including fixing such advisors' fees and retention terms, subject to advising the Board chair; the Committee makes arrangements for the appropriate funding for payment of the external auditors and any advisors retained by it. The Board also provides appropriate funding for all administrative expenses necessary or appropriate to allow the Audit Committee to carry out its duties.

The Audit Committee has direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. In addition, each must meet separately with the Audit Committee, without management, twice a year, and more frequently as required; the Audit Committee must also meet separately with management twice a year, and more frequently as required.

The Audit Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the Directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members may have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditors and the external auditors.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Company by the external auditors.

The Audit Committee's oversight responsibilities are not established to provide an independent basis to determine that (i) management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures, or (ii) the Company's financial statements have been prepared and, if applicable, audited in accordance with generally accepted accounting principles or generally accepted auditing standards.

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**CANADIAN NATIONAL RAILWAY COMPANY**

By: /s/ Sean Finn
Name: Sean Finn
Title: Senior Vice-President Public Affairs, Chief Legal Officer and Corporate Secretary
Date: February 12, 2008

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 99.1 | Management's Discussion and Analysis for the year ended December 31, 2007* |
| 99.2 | Audited Annual Consolidated Financial Statements for the year ended December 31, 2007* |
| 99.3 | Consent of KPMG LLP. |
| 99.4 | CEO Section 302 Certification. |
| 99.5 | CFO Section 302 Certification. |
| 99.6 | CEO and CFO Section 906 Certification. |

*Incorporated by reference to the Registrant’s Form 6-K dated February 12, 2008.

**Exhibit 99.3**

**KPMG LLP**
**Chartered Accountants**
600 de Maisonneuve Blvd. West
Suite 1500
Montréal, Québec H3A 0A3

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors of
Canadian National Railway Company

We consent to the use of our Report of Independent Registered Public Accounting Firm dated February 11, 2008 with respect to the consolidated balance sheets of Canadian National Railway Company as at December 31, 2007 and December 31, 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, and our Report of Independent Registered Public Accounting Firm dated February 11, 2008 on the effectiveness of internal control over financial reporting as of December 31, 2007, which is included in this annual report on Form 40-F of Canadian National Railway Company for the year ended December 31, 2007, and incorporated by reference, in the registration statement (No. 333-147725) on Form F-9 through the 6-K filing on February 12, 2008.

/s/ KPMG LLP
Chartered Accountants

Montréal, Canada
February 11, 2008

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

**Exhibit 99.4**

**CEO SECTION 302 CERTIFICATION**

I, E. Hunter Harrison, certify that:

(1) I have reviewed this annual report on Form 40-F 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 issuer as of, and for, the periods presented in this report;

(4) The issuer'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 issuer 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 issuer, 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 issuer'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 issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

(5) The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: February 11, 2008

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

**Exhibit 99.5**

**CFO SECTION 302 CERTIFICATION**

I, Claude Mongeau, certify that:

(1) I have reviewed this annual report on Form 40-F 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 issuer as of, and for, the periods presented in this report;

(4) The issuer'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 issuer 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 issuer, 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 issuer'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 issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

(5) The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: February 11, 2008

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

**Exhibit 99.6**

**CEO AND CFO SECTION 906 CERTIFICATION**

February 11, 2008

Securities and Exchange Commission
450 Fifth Street, N.W
Washington, D.C. 20549

Ladies and Gentlemen:

The certification set forth below is being submitted to the Securities and Exchange Commission for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

E. Hunter Harrison, President and Chief Executive Officer, and Claude Mongeau, Executive Vice-President and Chief Financial Officer, of Canadian National Railway Company, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canadian National Railway Company.

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

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