

CANADIAN NATIONAL RAILWAY CO  
Form 6-K  
October 23, 2007

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

**Report of Foreign Issuer**

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

For the month of October, 2007

Commission File Number: 001-02413

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

**935 de la Gauchetiere Street West**  
**Montreal, Quebec**  
**Canada H3B 2M9**  
(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

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

Yes

No

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

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Canadian National Railway Company

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Item

1. Press Release dated October 22, 2007 entitled, "CN reports Q3-2007 net income of C\$485 million, or C\$0.96 per diluted share, including C\$0.03 per share benefit from favorable tax adjustments".
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**North America's Railroad**

**NEWS RELEASE**

**CN reports Q3-2007 net income of C\$485 million,  
or C\$0.96 per diluted share, including C\$0.03 per share  
benefit from favorable tax adjustments**

*Results reflect weak forest products  
revenues, challenging C\$/US\$ exchange rate environment*

**MONTREAL, Oct. 22, 2007** — CN (TSX:CNR)(NYSE:CNI) today reported its financial and operating results for the three-month and nine-month periods ended Sept. 30, 2007.

**Key third-quarter 2007 statistics**

- Diluted earnings per share of C\$0.96, including a C\$0.03 per share benefit from favorable tax adjustments, increased two per cent from the year-earlier period.
- Net income of C\$485 million, including a C\$14-million benefit from favorable tax adjustments, declined two per cent from net income for the same quarter of 2006.
- Revenues remained essentially flat at C\$2,023 million, with several commodity groups helping to offset significant weakness in forest products.
- Operating income declined nine per cent to C\$768 million, while CN's operating ratio increased by 3.5 points to 62.0 per cent.

E. Hunter Harrison, president and chief executive officer, said: "CN's third-quarter results are a solid achievement given the challenges we faced during the period. Revenues in our forest products segment – CN's largest commodity group by revenue – declined 13 per cent as a result of weak market conditions and mill closures, the impact of a stronger Canadian dollar and lower fuel surcharge revenues.

"The stronger Canadian dollar not only affected forest products but also our other businesses. Clearly, few of us expected that the Canadian dollar would surge beyond parity with the U.S. dollar during the quarter. Despite these challenges, we are fortunate to have a diversified portfolio of businesses and we were able to register volume and revenue growth in Canadian coal, grain and fertilizers, petroleum and chemicals, and automotive.

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“In the near term, CN anticipates continued weak market conditions in a number of segments, particularly forest products and construction materials. In addition, we will continue to confront the financial impact of the Canadian dollar/U.S. dollar exchange rate and its effect on our customers. However, as a result of anticipated gains from the closing of our Central Station Complex and English Welsh and Scottish Railway transactions during the fourth quarter, CN expects to achieve full-year 2007 diluted earnings per share growth of about five per cent. Excluding these transaction gains, 2007 adjusted diluted earnings per share are expected to be flat versus 2006.”

### **Third-quarter results**

Net income for the third quarter of 2007 was C\$485 million, including a C\$14-million benefit from favorable tax adjustments related to the enactment of corporate tax rate changes in Canada and net capital losses arising from a reorganization of certain subsidiaries, compared with net income of C\$497 million for the comparable period of 2006.

Diluted earnings per share for the latest quarter were C\$0.96, including a C\$0.03 per share benefit from favorable tax adjustments, compared with C\$0.94 per diluted share for the same quarter of 2006.

Third-quarter revenues of C\$2,023 million were relatively flat, largely on account of the unfavorable translation impact of a stronger Canadian dollar on U.S. dollar-denominated revenues, lower fuel surcharge revenues resulting from a decrease in the applicable year-over-year oil prices, and weaknesses in specific markets, particularly forest products. These decreases were partly offset by freight rate increases, an overall improvement in traffic mix, driven primarily by extended routings, and volume growth in Canadian coal, grain and fertilizers, petroleum and chemicals, and automotive traffic.

Revenue ton-miles, a measurement of the relative weight and distance of rail freight transported by the Company, declined one per cent during third-quarter 2007 versus the comparable period of 2006. Total rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, declined one per cent over the same period in 2006.

Operating expenses for the third quarter increased six per cent to C\$1,255 million, mainly due to increased labor and fringe benefits, fuel, equipment rents, and casualty and other expenses, which were partly offset by the translation impact of the stronger Canadian dollar.

The operating ratio, defined as operating expenses as a percentage of revenues, was 62.0 per cent during the quarter, compared with 58.5 per cent for the third quarter of 2006, a 3.5-point increase.

### **Nine-month 2007 results**

Net income for the first nine months of 2007 was C\$1,325 million, or C\$2.59 per diluted share, including deferred income tax recoveries of C\$44 million (C\$0.09 per diluted share) resulting from the enactment of lower corporate tax rates in Canada and net capital losses arising from a reorganization of certain subsidiaries.

Year-earlier net income was C\$1,588 million, or C\$2.95 per diluted share, including a deferred income tax recovery of C\$250 million (C\$0.46 per diluted share).

Revenues for the first nine months of 2007 were relatively flat at C\$5,956 million, as freight rate increases and an overall improvement in traffic mix were largely offset by the impact of the first-quarter United Transportation Union (UTU) strike and adverse weather conditions, operational challenges, primarily in western Canada, the translation impact of a stronger Canadian dollar on U.S. dollar-denominated revenues, lower fuel surcharge revenues as a result of a decrease in the applicable year-over-year oil prices, and weakness in specific markets, particularly forest products.

Revenue ton-miles for the first nine months of 2007 declined two per cent from the comparable period of 2006, while total rail freight revenue per ton-mile increased two per cent.

For the first nine months of 2007, operating expenses increased four per cent to C\$3,816 million, mainly due to increased fuel, equipment rents and purchased services and material expenses, which were partly offset by the translation impact of a stronger Canadian dollar and lower casualty and other expenses. The nine-month operating ratio was 64.1 per cent, a 2.5-point increase.

In addition to the adverse weather conditions in the first quarter and operational challenges in the second quarter, the Company's results in the first nine months of 2007 included the impact of a first-quarter 2007 strike by 2,800 members of the UTU in Canada for which the Company estimates that the impact on first-quarter 2007 operating income and net income approximated C\$50 million and C\$35 million, respectively (C\$0.07 per diluted share).

The financial results in this press release were determined on the basis of U.S. generally accepted accounting principles (U.S. GAAP).

Please see discussion and reconciliation of non-GAAP adjusted performance measures in the attached supplementary schedule, Non-GAAP Measures.

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions, and while there may be a risk of recession in the U.S. economy, the Company's assumption is that positive economic conditions in North America and globally will continue, which assumption may not materialize, and that its results could differ materially from those expressed or implied in such statements. Important factors that could cause such differences include, but are not limited to, industry competition, legislative and/or regulatory developments, compliance with environmental laws and regulations, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, the effects of adverse general economic and business conditions, inflation, currency fluctuations, changes in fuel prices, labor disruptions, environmental claims, investigations or proceedings, other types of claims and litigation, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to CN's most recent Form 40-F filed with the United States Securities and Exchange Commission, its Annual Information Form filed with the Canadian securities regulators, and its 2006 Annual Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis (MD&A), for a summary of major risks.



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

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)**

(In millions, except per share data)

|  | Three months<br>ended<br>September 30 |               | Nine months ended<br>September 30 |                 |
|--|---------------------------------------|---------------|-----------------------------------|-----------------|
|  | 2007                                  | 2006          | 2007                              | 2006            |
|  | (Unaudited)                           |               |                                   |                 |
| Revenues                                 | \$ 2,023                              | \$ 2,032      | \$ 5,956                          | \$ 5,929        |
| Operating expenses                       |                                       |               |                                   |                 |
| Labor and fringe benefits                | 446                                   | 420           | 1,361                             | 1,349           |
| Purchased services and material          | 247                                   | 250           | 786                               | 756             |
| Depreciation and amortization            | 165                                   | 157           | 504                               | 483             |
| Fuel                                     | 251                                   | 235           | 719                               | 665             |
| Equipment rents                          | 59                                    | 49            | 187                               | 135             |
| Casualty and other                       | 87                                    | 77            | 259                               | 267             |
| Total operating expenses                 | 1,255                                 | 1,188         | 3,816                             | 3,655           |
| Operating income                         | 768                                   | 844           | 2,140                             | 2,274           |
| Interest expense                         | (78)                                  | (82)          | (251)                             | (232)           |
| Other income (loss)                      | 2                                     | (10)          | 7                                 | (16)            |
| Income before income taxes               | 692                                   | 752           | 1,896                             | 2,026           |
| Income tax expense (Note 8)              | (207)                                 | (255)         | (571)                             | (438)           |
| <b>Net income</b>                        | <b>\$ 485</b>                         | <b>\$ 497</b> | <b>\$ 1,325</b>                   | <b>\$ 1,588</b> |
| <b>Earnings per share (Note 9)</b>       |                                       |               |                                   |                 |
| Basic                                    | \$ 0.97                               | \$ 0.95       | \$ 2.62                           | \$ 3.00         |
| Diluted                                  | \$ 0.96                               | \$ 0.94       | \$ 2.59                           | \$ 2.95         |
| <b>Weighted-average number of shares</b> |                                       |               |                                   |                 |
| Basic                                    | 499.7                                 | 522.5         | 505.0                             | 529.5           |
| Diluted                                  | 506.4                                 | 530.2         | 512.1                             | 538.0           |

See accompanying notes to unaudited consolidated financial statements.

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

(In millions)

|  | <b>September<br/>30<br/>2007<br/>(Unaudited)</b> | December<br>31<br>2006 | September<br>30<br>2006<br>(Unaudited) |
|--|--|------------------------|--|
| <b>Assets</b>  |  |                        |  |
| <b>Current assets:</b>   |  |                        |  |
| Cash and cash equivalents  | \$ 214   | \$ 179                 | \$ 56                                  |
| Accounts receivable  | 641  | 692                    | 1,035                                  |
| Material and supplies  | 206  | 189                    | 205                                    |
| Deferred income taxes (Notes 2, 8)                                     | 69   | 84                     | 80                                     |
| Other  | 316  | 192                    | 107                                    |
|  | <b>1,446</b>                                     | <b>1,336</b>           | <b>1,483</b>                           |
| Properties   | <b>19,883</b>                                    | 21,053                 | 20,216                                 |
| Intangible and other assets  | <b>1,576</b>                                     | 1,615                  | 976                                    |
| <b>Total assets</b>  | <b>\$ 22,905</b>                                 | \$ 24,004              | \$ 22,675                              |
| <b>Liabilities and shareholders' equity</b>                            |  |                        |  |
| <b>Current liabilities:</b>  |  |                        |  |
| Accounts payable and accrued charges                                   | \$ 1,205   | \$ 1,823               | \$ 1,671                               |
| Current portion of long-term debt (Note 4)                             | 293  | 218                    | 151                                    |
| Other  | 56   | 73                     | 69                                     |
|  | <b>1,554</b>                                     | <b>2,114</b>           | <b>1,891</b>                           |
| Deferred income taxes (Notes 2, 8)                                     | <b>4,940</b>                                     | 5,215                  | 4,884                                  |
| Other liabilities and deferred credits                                 | <b>1,410</b>                                     | 1,465                  | 1,474                                  |
| Long-term debt (Note 4)  | <b>5,342</b>                                     | 5,386                  | 5,164                                  |
| <b>Shareholders' equity:</b>   |  |                        |  |
| Common shares  | <b>4,359</b>                                     | 4,459                  | 4,476                                  |
| Accumulated other comprehensive loss                                   | <b>(257)</b>                                     | (44)                   | (520)                                  |
| Retained earnings  | <b>5,557</b>                                     | 5,409                  | 5,306                                  |
|  | <b>9,659</b>                                     | <b>9,824</b>           | <b>9,262</b>                           |
| <b>Total liabilities and shareholders' equity</b>                      | <b>\$ 22,905</b>                                 | \$ 24,004              | \$ 22,675                              |
| See accompanying notes to unaudited consolidated financial statements. |  |                        |  |

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

(In millions)

|  | <b>Three months ended</b> |          | <b>Nine months ended</b> |          |
|--|---------------------------|----------|--------------------------|----------|
|  | <b>September 30</b>       |          | <b>September 30</b>      |          |
|  | <b>2007</b>               | 2006     | <b>2007</b>              | 2006     |
|  | <i>(Unaudited)</i>        |          |                          |          |
| <b>Common shares <sup>(1)</sup></b>  |                           |          |                          |          |
| Balance, beginning of period   | \$ 4,417                  | \$ 4,543 | \$ 4,459                 | \$ 4,580 |
| Stock options exercised and other  | 16                        | 8        | 83                       | 90       |
| Share repurchase programs (Note 4)   | (74)                      | (75)     | (183)                    | (194)    |
| Balance, end of period   | \$ 4,359                  | \$ 4,476 | \$ 4,359                 | \$ 4,476 |
| <b>Accumulated other comprehensive loss</b>  |                           |          |                          |          |
| Balance, beginning of period   | \$ (180)                  | \$ (521) | \$ (44)                  | \$ (222) |
| Other comprehensive income (loss):   |                           |          |                          |          |
| Unrealized foreign exchange gain (loss) on:  |                           |          |                          |          |
| Translation of the net investment in foreign operations  | (381)                     | 50       | (914)                    | (214)    |
| Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries | 328                       | (44)     | 766                      | 163      |
| Pension and other postretirement benefit plans:  |                           |          |                          |          |
| Amortization of:   |                           |          |                          |          |
| Prior service cost (Note 6)  | 5                         | -        | 16                       | -        |
| Net actuarial loss (Note 6)  | 13                        | -        | 38                       | -        |
| Derivative instruments:  |                           |          |                          |          |
| Decrease in unrealized holding gains on fuel derivative instruments  | -                         | (10)     | -                        | (57)     |
| Other comprehensive loss before income taxes   | (35)                      | (4)      | (94)                     | (108)    |
| Income tax recovery (expense)  | (42)                      | 5        | (119)                    | (190)    |
| Other comprehensive income (loss)  | (77)                      | 1        | (213)                    | (298)    |
| Balance, end of period   | \$ (257)                  | \$ (520) | \$ (257)                 | \$ (520) |
| <b>Retained earnings</b>   |                           |          |                          |          |
| Balance, beginning of period   | \$ 5,554                  | \$ 5,212 | \$ 5,409                 | \$ 4,891 |
| Adoption of new accounting pronouncements (Note 2)   | -                         | -        | 95                       | -        |
| Restated balance, beginning of period  | 5,554                     | 5,212    | 5,504                    | 4,891    |
| Net income   | 485                       | 497      | 1,325                    | 1,588    |

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|   |                 |          |                 |          |
|---|-----------------|----------|-----------------|----------|
| Share repurchase programs ( <i>Note 4</i> ) | <b>(378)</b>    | (318)    | <b>(956)</b>    | (916)    |
| Dividends                                   | <b>(104)</b>    | (85)     | <b>(316)</b>    | (257)    |
| Balance, end of period                      | \$ <b>5,557</b> | \$ 5,306 | \$ <b>5,557</b> | \$ 5,306 |

See accompanying notes to unaudited consolidated financial statements.

*(1) During the three and nine months ended September 30, 2007, the Company issued 0.5 million and 2.9 million common shares, respectively, as a result of stock options exercised. At September 30, 2007, the Company had 494.5 million common shares outstanding.*

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

(In millions)

|   | Three months ended<br>September 30 |              | Nine months ended<br>September 30 |              |
|---|------------------------------------|--------------|-----------------------------------|--------------|
|   | 2007                               | 2006         | 2007                              | 2006         |
|   |                                    | (Unaudited)  |                                   |              |
| <b>Operating activities</b>   |                                    |              |                                   |              |
| Net income  | \$ 485                             | \$ 497       | \$ 1,325                          | \$ 1,588     |
| Adjustments to reconcile net income to net cash provided from operating activities:                 |                                    |              |                                   |              |
| Depreciation and amortization   | 165                                | 159          | 506                               | 486          |
| Deferred income taxes   | 75                                 | 74           | 125                               | (20)         |
| Other changes in:   |                                    |              |                                   |              |
| Accounts receivable   | (252)                              | (71)         | (38)                              | (420)        |
| Material and supplies   | (6)                                | 30           | (26)                              | (54)         |
| Accounts payable and accrued charges  | (65)                               | 134          | (471)                             | 149          |
| Other net current assets and liabilities  | 42                                 | 9            | 51                                | 92           |
| Other   | (14)                               | 22           | (40)                              | 57           |
| Cash provided from operating activities   | 430                                | 854          | 1,432                             | 1,878        |
| <b>Investing activities</b>   |                                    |              |                                   |              |
| Property additions  | (350)                              | (384)        | (897)                             | (826)        |
| Other, net  | 14                                 | 6            | 26                                | (39)         |
| Cash used by investing activities   | (336)                              | (378)        | (871)                             | (865)        |
| <b>Financing activities</b>   |                                    |              |                                   |              |
| Issuance of long-term debt  | 1,841                              | -            | 3,325                             | 3,125        |
| Reduction of long-term debt   | (1,420)                            | (153)        | (2,469)                           | (2,855)      |
| Issuance of common shares due to exercise of stock options and related excess tax benefits realized | 14                                 | 4            | 73                                | 78           |
| Repurchase of common shares   | (452)                              | (393)        | (1,139)                           | (1,110)      |
| Dividends paid  | (104)                              | (85)         | (316)                             | (257)        |
| Cash used by financing activities   | (121)                              | (627)        | (526)                             | (1,019)      |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>(27)</b>                        | <b>(151)</b> | <b>35</b>                         | <b>(6)</b>   |
| Cash and cash equivalents, beginning of period  | 241                                | 207          | 179                               | 62           |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 214</b>                      | <b>\$ 56</b> | <b>\$ 214</b>                     | <b>\$ 56</b> |
| <b>Supplemental cash flow information</b>   |                                    |              |                                   |              |
| Net cash receipts from customers and other  | \$ 1,770                           | \$ 1,949     | \$ 5,930                          | \$ 5,521     |

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Net cash payments for:

|   |                |        |                 |          |
|---|----------------|--------|-----------------|----------|
| Employee services, suppliers and other expenses | <b>(1,106)</b> | (924)  | <b>(3,387)</b>  | (3,097)  |
| Interest  | <b>(86)</b>    | (86)   | <b>(273)</b>    | (227)    |
| Workforce reductions                            | <b>(8)</b>     | (10)   | <b>(24)</b>     | (37)     |
| Personal injury and other claims                | <b>(12)</b>    | (18)   | <b>(58)</b>     | (60)     |
| Pensions  | <b>(27)</b>    | (21)   | <b>(50)</b>     | (46)     |
| Income taxes                                    | <b>(101)</b>   | (36)   | <b>(706)</b>    | (176)    |
| Cash provided from operating activities         | \$ <b>430</b>  | \$ 854 | \$ <b>1,432</b> | \$ 1,878 |

See accompanying notes to unaudited consolidated financial statements.

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

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**Note 1 – Basis of presentation**

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at September 30, 2007, December 31, 2006, and September 30, 2006, and its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2007 and 2006.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2006 Annual Consolidated Financial Statements, except for accounting for income taxes and pensions and other postretirement benefits as explained in Note 2 – Adoption of new accounting pronouncements. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's Interim Management's Discussion and Analysis (MD&A) and Annual Consolidated Financial Statements and Notes thereto.

Certain of the comparative figures have been reclassified in order to be consistent with the 2007 presentation as discussed herein. As a result of the Company's expansion of its existing non-rail transportation services, in combination with its rail service, the Company has become primarily responsible for the fulfillment of the transportation of goods involving non-rail activities. In order to be consistent with other non-rail transportation services, the Company reclassified certain operating expenses incurred for non-rail transportation services, which were previously netted with their related revenues, to reflect the gross reporting of revenues where appropriate. This change had no impact on the Company's operating income and net income, as both revenues and operating expenses were increased by \$92 million and \$225 million in the three and nine months ended September 30, 2007, respectively, and \$51 million and \$155 million, respectively, for the same periods in 2006.

**Note 2 – Adoption of new accounting pronouncements**

*Income taxes*

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The application of FIN No. 48 on January 1, 2007 had the effect of decreasing the net deferred income tax liability and increasing Retained earnings by \$98 million.

At January 1, 2007, the total amount of unrecognized tax benefits was \$80 million, of which \$36 million related to accrued interest and penalties. The total amount of the gross unrecognized tax benefits was \$140 million, before considering tax treaties and other arrangements between taxation authorities. If recognized, all of the unrecognized tax benefits would affect the effective tax rate. The amount of unrecognized tax benefits did not significantly change as at September 30, 2007.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in Income tax expense in the Company's Consolidated Statement of Income. The amount of interest and penalties expense for the three and nine

months ended September 30, 2007 was not significant.

In Canada, the federal income tax returns filed for the years 2002 to 2006 and the provincial income tax returns filed for the years 1998 to 2006 remain subject to examination by the taxation authorities. In the U.S., the income tax returns filed for the years 2004 to 2006 remain subject to examination by the taxation authorities.

*Pensions and other postretirement benefits*

On January 1, 2007, pursuant to Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)," the Company early adopted the requirement to measure the defined benefit plan assets and the projected benefit obligation as of the date of the fiscal year-end statement of financial position for its U.S. plans. The Company elected to use the 15-month transition method, which allows for the extrapolation of net periodic benefit cost based on the September 30, 2006 measurement date to the fiscal year-end date of



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

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December 31, 2007. As a result, the Company recorded a reduction of \$3 million to Retained earnings at January 1, 2007, which represents the net periodic benefit cost attributable to the period between the early measurement date of September 30, 2006 and January 1, 2007 (the date of adoption).

**Note 3 – Agreement to acquire Elgin, Joliet and Eastern Railway Company (EJ&E)**

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

In accordance with the terms of the agreement, the Company's obligation to consummate the acquisition is subject to the Company having obtained from the 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.

The Company believes that if its application to acquire EJ&E is approved by the STB as filed, the transaction should close by mid-2008. If the transaction is approved, the Company will account for the acquisition using the purchase method of accounting.

**Note 4 – Financing activities**

*Shelf prospectus and registration statement*

In September 2007, the Company issued U.S.\$250 million (Cdn\$250 million) of 5.85% Notes due 2017 and U.S.\$300 million (Cdn\$300 million) of 6.375% Debentures due 2037, the total remaining amount under its shelf registration statement filed in May 2006. The Company used the net proceeds of U.S.\$544 million to repay a portion of its commercial paper outstanding and to reduce its accounts receivable securitization program.

*Revolving credit facility*

As at September 30, 2007, the Company had letters of credit drawn on its U.S.\$1 billion revolving credit facility of \$58 million (\$308 million as at December 31, 2006). The Company also had total borrowings under its commercial paper program of \$377 million, of which \$136 million was denominated in Canadian dollars and \$241 million was denominated in U.S. dollars (U.S.\$242 million). The weighted-average interest rate on these borrowings was 5.43%. The Company had no commercial paper outstanding as at December 31, 2006.

*Accounts receivable securitization*

The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest of up to a maximum of \$600 million in a revolving pool of freight receivables to an unrelated trust. At September 30, 2007, the Company had sold receivables that resulted in proceeds of \$406 million under this program (\$393 million at December 31, 2006). The retained interest in the receivables was approximately 10% of this amount and is recorded in Other current assets. At September 30, 2007, the servicing asset and liability were not significant.

*Share repurchase programs*

On July 23, 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.

In the third quarter of 2007, under this current share repurchase program, the Company repurchased 8.3 million common shares for \$452 million, at a weighted-average price of \$54.46 per share.

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In the second quarter of 2007, the Company completed its 28.0 million share repurchase program, which began on July 25, 2006, repurchasing a total of 28.0 million common shares for \$1,453 million, at a weighted-average price of \$51.88 per share. Of this amount, 12.5 million common shares were repurchased in 2007 for \$687 million, at a weighted-average price of \$54.93 per share.

**Note 5 – Stock plans**

The Company has various stock-based incentive plans for eligible employees. A description of the plans is provided in Note 12 – Stock plans, to the Company’s 2006 Annual Consolidated Financial Statements. For the three and nine months ended September 30, 2007, the Company recorded total compensation expense for awards under all plans of \$39 million and \$112 million, respectively, and \$7 million and \$48 million, respectively, for the same periods in 2006. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and nine months ended September 30, 2007, was \$12 million and \$33 million, respectively, and \$1 million and \$12 million, respectively, for the same periods in 2006.

*Cash settled award*

Following approval by the Board of Directors in January 2007, the Company granted 0.7 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company’s share price. The RSUs granted by the Company are generally scheduled for payout in cash after three years (“plan period”) and vest upon the attainment of targets relating to return on invested capital over the plan period and the Company’s share price during the last three months of the plan period. As at September 30, 2007, 0.1 million RSUs remained authorized for future issuance under this plan.

The following table provides the activity for all cash settled awards in 2007:

| <i>In millions</i>                       | RSUs       |        | Vision 2008 Share Unit Plan (Vision) |        | Voluntary Incentive Deferral Plan (VIDP) |            |
|--|------------|--------|--------------------------------------|--------|--|------------|
|  | Nonvested  | Vested | Nonvested                            | Vested | Nonvested                                | Vested     |
| Outstanding at December 31, 2006         | 2.0        | -      | 0.8                                  | -      | 0.3                                      | 1.9        |
| Granted                                  | 0.7        | -      | -                                    | -      | -  | -          |
| Forfeited                                | -          | -      | -                                    | -      | -  | -          |
| Vested during period                     | (0.2)      | 0.2    | -                                    | -      | (0.1)                                    | 0.1        |
| Payout                                   | -          | (0.1)  | -                                    | -      | -  | (0.2)      |
| Conversion into VIDP                     | -          | (0.1)  | -                                    | -      | -  | 0.1        |
| <i>Outstanding at September 30, 2007</i> | <b>2.5</b> | -      | <b>0.8</b>                           | -      | <b>0.2</b>                               | <b>1.9</b> |

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

| <i>In millions, unless otherwise indicated</i>                                   | <b>RSUs <sup>(1)</sup></b> |             |             |             | <b>Vision</b> | <b>VIDP</b>         | <b>Total</b> |
|--|----------------------------|-------------|-------------|-------------|---------------|---------------------|--------------|
|  | <b>2007</b>                | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>(1)</b>    | <b>(2)</b>          |              |
| <b>Year of grant</b>   |                            |             |             |             | <b>2005</b>   | <b>2003 onwards</b> |              |
| <b>Stock-based compensation expense recognized over requisite service period</b> |                            |             |             |             |               |                     |              |
| Nine months ended September 30, 2007   | \$ 17                      | \$ 19       | \$ 19       | \$ 5        | \$ 13         | \$ 30               | \$ 103       |
| Nine months ended September 30, 2006   | N/A                        | \$ 8        | \$ 12       | \$ 5        | \$ 6          | \$ 5                | \$ 36        |
| <b>Liability outstanding</b>   |                            |             |             |             |               |                     |              |
| September 30, 2007   | \$ 17                      | \$ 40       | \$ 53       | \$ 4        | \$ 20         | \$ 115              | \$ 249       |
| December 31, 2006  | N/A                        | \$ 21       | \$ 34       | \$ 8        | \$ 8          | \$ 99               | \$ 170       |
| <b>Fair value per unit</b>   |                            |             |             |             |               |                     |              |
| September 30, 2007   | \$ 48.31                   | \$ 53.97    | \$ 56.56    | \$ 56.76    | \$ 37.20      | \$ 56.76            | N/A          |
| <b>Fair value of awards vested during period</b>                                 |                            |             |             |             |               |                     |              |
| Nine months ended September 30, 2007   | \$ -                       | \$ -        | \$ -        | \$ 5        | \$ -          | \$ 3                | \$ 8         |
| Nine months ended September 30, 2006   | N/A                        | \$ -        | \$ -        | \$ -        | \$ -          | \$ 2                | \$ 2         |
| <b>Nonvested awards at September 30, 2007</b>                                    |                            |             |             |             |               |                     |              |
| Unrecognized compensation cost   | \$ 15                      | \$ 14       | \$ 5        | \$ 5        | \$ 9          | \$ 10               | \$ 58        |
| Remaining recognition period (years)   | 2.25                       | 1.25        | 0.25        | 1.25        | 1.25          | 3.25                | N/A          |
| <b>Assumptions <sup>(3)</sup></b>  |                            |             |             |             |               |                     |              |
| Stock price (\$)   | \$ 56.76                   | \$ 56.76    | \$ 56.76    | \$ 56.76    | \$ 56.76      | \$ 56.76            | N/A          |
| Expected stock price volatility <sup>(4)</sup>                                   | 20%                        | 20%         | 21%         | N/A         | 20%           | N/A                 | N/A          |
| Expected term (years) <sup>(5)</sup>   | 2.25                       | 1.25        | 0.25        | N/A         | 1.25          | N/A                 | N/A          |
| Risk-free interest rate <sup>(6)</sup>   | 4.07%                      | 4.20%       | 4.20%       | N/A         | 4.13%         | N/A                 | N/A          |
| Dividend rate (\$) <sup>(7)</sup>  | \$ 0.84                    | \$ 0.84     | \$ 0.84     | N/A         | \$ 0.84       | N/A                 | N/A          |

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

(2) Compensation cost is based on intrinsic value.

(3) Assumptions used to determine fair value are at period-end.

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

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

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

*(7) Based on the annualized dividend rate.*

*Stock option award*

Following approval by the Board of Directors in January 2007, the Company granted 0.9 million conventional stock options to designated senior management employees. The stock option plan allows eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of grant. The options are exercisable during a period not exceeding 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At September 30, 2007, 14.4 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at September 30, 2007, including conventional, performance, and performance-accelerated options, was 10.7 million, 0.6 million and 3.5 million, respectively.

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The following table provides the activity of stock option awards in 2007:

|   | Number<br>of options<br><i>In millions</i> | Weighted-average<br>exercise<br>price | Options outstanding<br>Weighted-average<br>years to<br>expiration | Aggregate<br>intrinsic<br>value<br><i>In millions</i> |
|---|--|---------------------------------------|---|---|
| Outstanding at December 31, 2006 <sup>(1)</sup>         | 16.9                                       | \$ 23.29                              |   |   |
| Granted   | 0.9  | \$ 52.79                              |   |   |
| Forfeited   | (0.1)                                      | \$ 36.92                              |   |   |
| Exercised   | (2.9)                                      | \$ 20.25                              |   |   |
| <i>Outstanding at September 30, 2007</i> <sup>(1)</sup> | 14.8                                       | \$ 24.52                              | 4.8   | \$ 477  |
| <i>Exercisable at September 30, 2007</i> <sup>(1)</sup> | 12.5                                       | \$ 21.15                              | 4.2   | \$ 446  |

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

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

*In millions, unless otherwise indicated*

| <b>Year of grant</b>  | 2007     | 2006     | 2005     | Prior to 2005 | Total |
|---|----------|----------|----------|---------------|-------|
| <b>Stock-based compensation expense recognized over requisite service period</b> <sup>(1)</sup> |          |          |          |               |       |
| Nine months ended September 30, 2007  | \$ 6     | \$ 1     | \$ 2     | \$ -          | \$ 9  |
| Nine months ended September 30, 2006  | N/A      | \$ 7     | \$ 2     | \$ 3          | \$ 12 |
| <b>Fair value per unit</b>  |          |          |          |               |       |
| At grant date (\$)  | \$ 13.36 | \$ 13.80 | \$ 9.19  | \$ 8.61       | N/A   |
| <b>Fair value of awards vested during period</b>  |          |          |          |               |       |
| Nine months ended September 30, 2007  | \$ -     | \$ 4     | \$ 3     | \$ -          | \$ 7  |
| Nine months ended September 30, 2006  | N/A      | \$ -     | \$ 3     | \$ 34         | \$ 37 |
| <b>Nonvested awards at September 30, 2007</b>   |          |          |          |               |       |
| Unrecognized compensation cost  | \$ 5     | \$ 5     | \$ 4     | \$ -          | \$ 14 |
| Remaining recognition period ( <i>years</i> )   | 3.4      | 2.4      | 1.3      | -             | N/A   |
| <b>Assumptions</b> <sup>(1)</sup>   |          |          |          |               |       |
| Grant price (\$)  | \$ 52.79 | \$ 51.51 | \$ 36.33 | \$ 23.59      | N/A   |
| Expected stock price volatility <sup>(2)</sup>  | 24%      | 25%      | 25%      | 30%           | N/A   |
| Expected term ( <i>years</i> ) <sup>(3)</sup>   | 5.2      | 5.2      | 5.2      | 6.2           | N/A   |
| Risk-free interest rate <sup>(4)</sup>  | 4.12%    | 4.04%    | 3.50%    | 5.13%         | N/A   |
| Dividend rate (\$) <sup> (5)</sup>  | \$ 0.84  | \$ 0.65  | \$ 0.50  | \$ 0.30       | N/A   |

*(1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.*

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

(3) *Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.*

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

(5) *Based on the annualized dividend rate.*

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**Note 6 – Pensions and other postretirement benefits**

For the three and nine months ended September 30, 2007 and 2006, the components of net periodic benefit cost for pensions and other postretirement benefits were as follows:

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

| <i>In millions</i>                 | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                    | <b>September 30</b>       |             | <b>September 30</b>      |             |
|                                    | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Service cost                       | \$ <b>38</b>              | \$ 29       | \$ <b>114</b>            | \$ 109      |
| Interest cost                      | <b>186</b>                | 180         | <b>557</b>               | 538         |
| Expected return on plan assets     | <b>(234)</b>              | (227)       | <b>(703)</b>             | (680)       |
| Amortization of prior service cost | <b>5</b>                  | 5           | <b>15</b>                | 14          |
| Amortization of net actuarial loss | <b>13</b>                 | 22          | <b>40</b>                | 68          |
| <i>Net periodic benefit cost</i>   | \$ <b>8</b>               | \$ 9        | \$ <b>23</b>             | \$ 49       |

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

| <i>In millions</i>                 | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                    | <b>September 30</b>       |             | <b>September 30</b>      |             |
|                                    | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Service cost                       | \$ <b>1</b>               | \$ 1        | \$ <b>3</b>              | \$ 3        |
| Interest cost                      | <b>4</b>                  | 3           | <b>11</b>                | 11          |
| Curtailement                       | -                         | -           | <b>(3)</b>               | -           |
| Amortization of prior service cost | -                         | -           | <b>1</b>                 | -           |
| Recognized net actuarial gain      | -                         | -           | <b>(2)</b>               | (4)         |
| <i>Net periodic benefit cost</i>   | \$ <b>5</b>               | \$ 4        | \$ <b>10</b>             | \$ 10       |

For the 2007 funding year, the Company expects to make total contributions of approximately \$90 million for all its defined benefit plans, of which \$50 million was disbursed as at September 30, 2007.

**Note 7 – Major commitments and contingencies**

**A. Commitments**

As at September 30, 2007, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$815 million (\$773 million at December 31, 2006). The Company also has agreements with fuel suppliers to purchase approximately 75% of the estimated remaining 2007 volume, 52% of its anticipated 2008 volume, 31% of its anticipated 2009 volume, 13% of its anticipated 2010 volume, and approximately 18% of its anticipated 2011 to 2015 volumes, at market prices prevailing on the date of the purchase.

**B. Contingencies**



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

*Canada*

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury.

Accordingly, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs. For all other legal actions, the Company maintains,

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and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

*United States*

Employee work-related injuries, including occupational disease claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA), which requires either the finding of fault through the U.S. jury system or individual settlements, and represent a major liability for the railroad industry. The Company follows an actuarial-based approach and accrues the expected cost for personal injury and property damage claims and asserted and unasserted occupational disease claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is conducted on an annual basis, in the fourth quarter, by an independent actuarial firm for occupational disease claims, while an actuarial study is conducted on a semi-annual basis for non-occupational disease claims. In the second quarter of 2007, the Company recorded a net reduction to its provision for U.S. personal injuries and other claims pursuant to the results of the latest actuarial study. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.

As at September 30, 2007, the Company had aggregate reserves for personal injury and other claims of \$500 million, of which \$103 million was recorded as a current liability (\$602 million, of which \$115 million was recorded as a current liability at December 31, 2006). Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at September 30, 2007, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

***C. Environmental matters***

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

The Company is subject to environmental clean-up and enforcement actions. In particular, the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, as well as similar state laws generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 21 sites governed by the Superfund law (and other similar federal and state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental

concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

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

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

As at September 30, 2007, the Company had aggregate accruals for environmental costs of \$109 million, of which \$18 million was recorded as a current liability (\$131 million, of which \$25 million was recorded as a current liability as at December 31, 2006).

***D. Guarantees and indemnifications***

In the normal course of business, the Company 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.

***(i) Guarantee of residual values of operating leases***

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2007 and 2017, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At September 30, 2007, the maximum exposure in respect of these guarantees was \$141 million. There are no recourse provisions to recover any amounts from third parties.

***(ii) Other guarantees***

The Company has granted irrevocable standby letters of credit and surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at September 30, 2007, the maximum potential liability under these guarantees was \$459 million, of which \$384 million was for workers' compensation and other employee benefits and \$75 million was for equipment under leases and other. During 2007, the Company has granted guarantees for which no liability has been recorded, as the majority relates to the Company's future performance.

As at September 30, 2007 the Company had not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any additional payments associated with these guarantees. The majority of the guarantee instruments mature at various dates between 2007 and 2010.

***(iii) General indemnifications***

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of

contracts with third parties which include, but are not limited to, (a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements; (b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements; (c) contracts for the sale of assets and securitization of accounts receivable; (d) contracts for the acquisition of services; (e) financing agreements; (f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors; (g) transfer agent and registrar agreements in respect of the Company's securities; (h) trust and other agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements; (i) pension transfer agreements; (j) master agreements with financial institutions governing derivative transactions; and (k) settlement agreements with insurance companies or other third parties whereby such insurer or third party has

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been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements. To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be determined with certainty.

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

**Note 8 – Income taxes**

In the third quarter of 2007, the enactment of a new Michigan income-based business tax to replace the single business tax was shortly followed by the enactment of an additional bill, which allows for future deductions equal to the net taxable temporary differences existing at the beginning of 2008. Therefore, there was no impact on the deferred income tax liability.

For the three and nine months ended September 30, 2007, the Company recorded deferred income tax recoveries of \$14 million and \$44 million, respectively, in the Consolidated Statement of Income, for the enactment of corporate income tax rate changes in Canada and net capital losses arising from a reorganization of certain subsidiaries.

For the nine months ended September 30, 2006, the Company recorded a deferred income tax recovery of \$250 million in the Consolidated Statement of Income, resulting primarily from the enactment of lower corporate income tax rates in Canada.

**Note 9 – Earnings per share**

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

| <i>In millions, except per share data</i>   | <b>Three months ended</b> |         | <b>Nine months ended</b> |          |
|---|---------------------------|---------|--------------------------|----------|
|   | <b>September 30</b>       |         | <b>September 30</b>      |          |
|   | <b>2007</b>               | 2006    | <b>2007</b>              | 2006     |
| Net income                                  | \$ 485                    | \$ 497  | \$ 1,325                 | \$ 1,588 |
| Weighted-average shares outstanding         | 499.7                     | 522.5   | 505.0                    | 529.5    |
| Effect of stock options                     | 6.7                       | 7.7     | 7.1                      | 8.5      |
| Weighted-average diluted shares outstanding | 506.4                     | 530.2   | 512.1                    | 538.0    |
| Basic earnings per share                    | \$ 0.97                   | \$ 0.95 | \$ 2.62                  | \$ 3.00  |
| Diluted earnings per share                  | \$ 0.96                   | \$ 0.94 | \$ 2.59                  | \$ 2.95  |

The weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, was nil and 0.1 million for the three and nine months ended

September 30, 2007, respectively, and 0.2 million, respectively, for the corresponding periods in 2006.

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**Note 10 - Investment in English Welsh and Scottish Railway (EWS)**

In July 2007, Germany's state-owned railway, Deutsche Bahn AG, entered into an agreement to acquire all of the shares of 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 has a 32% ownership interest. The acquisition is subject to approval by the European Commission, which is expected in the fourth quarter of 2007. The final purchase price is subject to the resolution of certain items, for which funds will be placed in escrow for a period of up to two years. The Company's share of the net after-tax cash proceeds is estimated to be \$85 million, before the ultimate resolution of the items mentioned above. The proceeds of disposition are expected to exceed the Company's carrying value of the investment. The Company's investment in EWS has been reclassified to Other current assets.

**Note 11 - Sale of Central Station Complex**

In September 2007, CN reached an agreement with Homburg Invest Inc., to sell its Central Station Complex in Montreal. Under the agreement, CN will enter into long-term arrangements to lease back its corporate headquarters building and the Central Station railway passenger facilities. The transaction, subject to customary closing requirements and regulatory approvals, will generate proceeds of \$355 million before any transaction costs for the Company and is expected to be finalized by the end of the current year. The book value of the assets being sold, excluding assets that will be accounted for as capital leases, has been reclassified to Other current assets. The proceeds of disposition are expected to exceed the Company's net book value of the underlying assets. Any gain resulting from the sale and leaseback of the corporate headquarters building and the Central Station railway passenger facilities will be deferred and amortized over the shorter of the lease period and the life of the assets.



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

|   | Three months ended |        | Nine months ended |         |
|---|--------------------|--------|-------------------|---------|
|   | September 30       |        | September 30      |         |
|   | 2007               | 2006   | 2007              | 2006    |
|   | <i>(Unaudited)</i> |        |                   |         |
| <b>Statistical operating data</b>   |                    |        |                   |         |
| Rail freight revenues (\$ millions)   | <b>1,821</b>       | 1,857  | <b>5,423</b>      | 5,430   |
| Gross ton miles (GTM) (millions)  | <b>88,498</b>      | 88,880 | <b>258,583</b>    | 264,565 |
| Revenue ton miles (RTM) (millions)  | <b>46,481</b>      | 47,066 | <b>136,997</b>    | 139,644 |
| Carloads (thousands)  | <b>1,204</b>       | 1,241  | <b>3,539</b>      | 3,678   |
| Route miles (includes Canada and the U.S.)                                    | <b>20,219</b>      | 19,919 | <b>20,219</b>     | 19,919  |
| Employees (end of period)   | <b>22,325</b>      | 21,681 | <b>22,325</b>     | 21,681  |
| Employees (average for the period)  | <b>22,262</b>      | 21,670 | <b>21,764</b>     | 21,663  |
| <b>Productivity</b>   |                    |        |                   |         |
| Operating ratio (%)   | <b>62.0</b>        | 58.5   | <b>64.1</b>       | 61.6    |
| Rail freight revenue per RTM (cents)  | <b>3.92</b>        | 3.95   | <b>3.96</b>       | 3.89    |
| Rail freight revenue per carload (\$)   | <b>1,512</b>       | 1,496  | <b>1,532</b>      | 1,476   |
| Operating expenses per GTM (cents)  | <b>1.42</b>        | 1.34   | <b>1.48</b>       | 1.38    |
| Labor and fringe benefits expense per GTM (cents)                             | <b>0.50</b>        | 0.47   | <b>0.53</b>       | 0.51    |
| GTM per average number of employees (thousands)                               | <b>3,975</b>       | 4,102  | <b>11,881</b>     | 12,213  |
| Diesel fuel consumed (U.S. gallons in millions)                               | <b>96</b>          | 96     | <b>290</b>        | 300     |
| Average fuel price (\$/U.S. gallon) <sup>(1)</sup>                            | <b>2.39</b>        | 2.33   | <b>2.29</b>       | 2.12    |
| GTM per U.S. gallon of fuel consumed  | <b>922</b>         | 926    | <b>892</b>        | 882     |
| <b>Safety indicators</b>  |                    |        |                   |         |
| Injury frequency rate per 200,000 person hours <sup>(2)</sup>                 | <b>2.2</b>         | 2.3    | <b>1.8</b>        | 2.1     |
| Accident rate per million train miles <sup>(2)</sup>                          | <b>3.0</b>         | 2.8    | <b>2.4</b>        | 2.3     |
| <b>Financial ratio</b>  |                    |        |                   |         |
| Debt to total capitalization ratio (% at end of period)                       | <b>36.8</b>        | 36.5   | <b>36.8</b>       | 36.5    |
| <i>(1) 2006 includes the impact of the Company's fuel hedging program.</i>    |                    |        |                   |         |
| <i>(2) Based on Federal Railroad Administration (FRA) reporting criteria.</i> |                    |        |                   |         |

Certain of the 2006 comparative figures have been reclassified in order to be consistent with the 2007 presentation (see Note 1 of the Company's unaudited Interim Consolidated Financial Statements). Certain statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

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

|   | Three months ended September 30 |               |  | Nine months ended September 30 |                |                            |
|---|---------------------------------|---------------|--|--------------------------------|----------------|----------------------------|
|   | 2007                            | 2006          | Variance<br>Fav<br>(Unfav)<br><i>(Unaudited)</i> | 2007                           | 2006           | Variance<br>Fav<br>(Unfav) |
| <b>Revenues (in millions of dollars)</b>  |                                 |               |  |                                |                |                            |
| Petroleum and chemicals                   | 317                             | 298           | 6%   | 920                            | 871            | 6%                         |
| Metals and minerals                       | 208                             | 226           | (8%)   | 631                            | 643            | (2%)                       |
| Forest products                           | 392                             | 450           | (13%)  | 1,216                          | 1,333          | (9%)                       |
| Coal                                      | 99                              | 93            | 6%   | 287                            | 277            | 4%                         |
| Grain and fertilizers                     | 330                             | 309           | 7%   | 961                            | 907            | 6%                         |
| Intermodal                                | 361                             | 369           | (2%)   | 1,020                          | 1,041          | (2%)                       |
| Automotive                                | 114                             | 112           | 2%   | 388                            | 358            | 8%                         |
| Other revenue                             | 202                             | 175           | 15%  | 533                            | 499            | 7%                         |
|   | <b>2,023</b>                    | <b>2,032</b>  | -  | <b>5,956</b>                   | <b>5,929</b>   | -                          |
| <b>Revenue ton miles (millions)</b>       |                                 |               |  |                                |                |                            |
| Petroleum and chemicals                   | 8,369                           | 8,049         | 4%   | 24,288                         | 23,938         | 1%                         |
| Metals and minerals                       | 4,301                           | 4,611         | (7%)   | 12,414                         | 13,441         | (8%)                       |
| Forest products                           | 10,021                          | 10,874        | (8%)   | 30,652                         | 32,439         | (6%)                       |
| Coal                                      | 3,500                           | 3,500         | -  | 10,344                         | 10,518         | (2%)                       |
| Grain and fertilizers                     | 11,241                          | 10,839        | 4%   | 32,809                         | 32,305         | 2%                         |
| Intermodal                                | 8,339                           | 8,487         | (2%)   | 24,114                         | 24,685         | (2%)                       |
| Automotive                                | 710                             | 706           | 1%   | 2,376                          | 2,318          | 3%                         |
|   | <b>46,481</b>                   | <b>47,066</b> | (1%)   | <b>136,997</b>                 | <b>139,644</b> | (2%)                       |
| <b>Rail freight revenue / RTM (cents)</b> |                                 |               |  |                                |                |                            |
| <b>Total rail freight revenue per RTM</b> | <b>3.92</b>                     | 3.95          | (1%)   | <b>3.96</b>                    | 3.89           | 2%                         |
| <b>Commodity groups:</b>                  |                                 |               |  |                                |                |                            |
| Petroleum and chemicals                   | 3.79                            | 3.70          | 2%   | 3.79                           | 3.64           | 4%                         |
| Metals and minerals                       | 4.84                            | 4.90          | (1%)   | 5.08                           | 4.78           | 6%                         |
| Forest products                           | 3.91                            | 4.14          | (6%)   | 3.97                           | 4.11           | (3%)                       |
| Coal                                      | 2.83                            | 2.66          | 6%   | 2.77                           | 2.63           | 5%                         |
| Grain and fertilizers                     | 2.94                            | 2.85          | 3%   | 2.93                           | 2.81           | 4%                         |
| Intermodal                                | 4.33                            | 4.35          | -  | 4.23                           | 4.22           | -                          |
| Automotive                                | 16.06                           | 15.86         | 1%   | 16.33                          | 15.44          | 6%                         |
| <b>Carloads (thousands)</b>               |                                 |               |  |                                |                |                            |
| Petroleum and chemicals                   | 153                             | 152           | 1%   | 448                            | 445            | 1%                         |
| Metals and minerals                       | 257                             | 270           | (5%)   | 749                            | 778            | (4%)                       |
| Forest products                           | 147                             | 165           | (11%)  | 450                            | 513            | (12%)                      |
| Coal                                      | 90                              | 99            | (9%)   | 275                            | 317            | (13%)                      |
| Grain and fertilizers                     | 152                             | 150           | 1%   | 439                            | 437            | -                          |
| Intermodal                                | 343                             | 348           | (1%)   | 978                            | 994            | (2%)                       |

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|   |              |       |      |              |       |      |
|---|--------------|-------|------|--------------|-------|------|
| Automotive                                      | <b>62</b>    | 57    | 9%   | <b>200</b>   | 194   | 3%   |
|   | <b>1,204</b> | 1,241 | (3%) | <b>3,539</b> | 3,678 | (4%) |
| <i>Rail freight revenue / carload (dollars)</i> |              |       |      |              |       |      |
| <b>Total rail freight revenue per carload</b>   | <b>1,512</b> | 1,496 | 1%   | <b>1,532</b> | 1,476 | 4%   |
| <b>Commodity groups:</b>                        |              |       |      |              |       |      |
| Petroleum and chemicals                         | <b>2,072</b> | 1,961 | 6%   | <b>2,054</b> | 1,957 | 5%   |
| Metals and minerals                             | <b>809</b>   | 837   | (3%) | <b>842</b>   | 826   | 2%   |
| Forest products                                 | <b>2,667</b> | 2,727 | (2%) | <b>2,702</b> | 2,598 | 4%   |
| Coal  | <b>1,100</b> | 939   | 17%  | <b>1,044</b> | 874   | 19%  |
| Grain and fertilizers                           | <b>2,171</b> | 2,060 | 5%   | <b>2,189</b> | 2,076 | 5%   |
| Intermodal                                      | <b>1,052</b> | 1,060 | (1%) | <b>1,043</b> | 1,047 | -    |
| Automotive                                      | <b>1,839</b> | 1,965 | (6%) | <b>1,940</b> | 1,845 | 5%   |

Certain of the 2006 comparative figures have been reclassified in order to be consistent with the 2007 presentation (see Note 1 of the Company's unaudited Interim Consolidated Financial Statements). Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

**CANADIAN NATIONAL RAILWAY COMPANY**  
**NON-GAAP MEASURES - unaudited**

**Adjusted performance measures**

During the three months ended September 30, 2007, the Company reported adjusted net income of \$471 million, or \$0.93 per diluted share, excluding the impact of a net deferred income tax recovery of \$14 million (\$0.03 per diluted share) that resulted from the enactment of corporate income tax rate changes in Canada and net capital losses arising from a reorganization of certain subsidiaries. During the nine months ended September 30, 2007, the Company reported adjusted net income of \$1,281 million, or \$2.50 per diluted share, excluding the impact of a net deferred income tax recovery of \$44 million (\$0.09 per diluted share) that resulted from the enactment of lower corporate income tax rates in Canada and net capital losses arising from a reorganization of certain subsidiaries.

During the nine months ended September 30, 2006, the Company reported adjusted net income of \$1,338 million, or \$2.49 per diluted share, excluding the impact of a second-quarter deferred income tax recovery of \$250 million (\$0.46 per diluted share) that resulted primarily from the enactment of lower corporate income tax rates in Canada.

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items such as deferred income tax adjustments, that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's Interim Consolidated Financial Statements and Notes thereto. The following tables provide a reconciliation of net income and earnings per share, as reported for the three and nine months ended September 30, 2007 and 2006, to the adjusted performance measures presented herein.

| <i>In millions, except per share data</i> | <b>Three months ended<br/>September 30, 2007</b> |                    |                 | <b>Nine months ended<br/>September 30, 2007</b> |                    |                 |
|---|--|--------------------|-----------------|---|--------------------|-----------------|
|   | <b>Tax</b>                                       |                    |                 | <b>Tax</b>                                      |                    |                 |
|   | <b>Reported</b>                                  | <b>adjustments</b> | <b>Adjusted</b> | <b>Reported</b>                                 | <b>adjustments</b> | <b>Adjusted</b> |
| Revenues                                  | \$ 2,023   | \$ -               | \$ 2,023        | \$ 5,956  | \$ -               | \$ 5,956        |
| Operating expenses                        | 1,255  | -                  | 1,255           | 3,816   | -                  | 3,816           |
| Operating income                          | 768  | -                  | 768             | 2,140   | -                  | 2,140           |
| Interest expense                          | (78)   | -                  | (78)            | (251)   | -                  | (251)           |
| Other income                              | 2  | -                  | 2               | 7   | -                  | 7               |
| Income before income taxes                | 692  | -                  | 692             | 1,896   | -                  | 1,896           |
| Income tax expense                        | (207)  | (14)               | (221)           | (571)   | (44)               | (615)           |
| <b>Net income</b>                         | <b>\$ 485</b>                                    | <b>\$ (14)</b>     | <b>\$ 471</b>   | <b>\$ 1,325</b>                                 | <b>\$ (44)</b>     | <b>\$ 1,281</b> |
| <b>Basic earnings per share</b>           | <b>\$ 0.97</b>                                   | <b>\$ (0.03)</b>   | <b>\$ 0.94</b>  | <b>\$ 2.62</b>                                  | <b>\$ (0.09)</b>   | <b>\$ 2.53</b>  |
| <b>Diluted earnings per share</b>         | <b>\$ 0.96</b>                                   | <b>\$ (0.03)</b>   | <b>\$ 0.93</b>  | <b>\$ 2.59</b>                                  | <b>\$ (0.09)</b>   | <b>\$ 2.50</b>  |

| <i>In millions, except per share data</i> | <b>Three months ended<br/>September 30, 2006</b> |                    |                 | <b>Nine months ended<br/>September 30, 2006</b> |                    |                 |
|---|--|--------------------|-----------------|---|--------------------|-----------------|
|   | <b>Tax</b>                                       |                    |                 | <b>Tax</b>                                      |                    |                 |
|   | <b>Reported</b>                                  | <b>adjustments</b> | <b>Adjusted</b> | <b>Reported</b>                                 | <b>adjustments</b> | <b>Adjusted</b> |
| Revenues                                  | \$ 2,032   | \$ -               | \$ 2,032        | \$ 5,929  | \$ -               | \$ 5,929        |

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|                                   |                |             |                |                 |                  |                 |
|-----------------------------------|----------------|-------------|----------------|-----------------|------------------|-----------------|
| Operating expenses                | 1,188          | -           | 1,188          | 3,655           | -                | 3,655           |
| Operating income                  | 844            | -           | 844            | 2,274           | -                | 2,274           |
| Interest expense                  | (82)           | -           | (82)           | (232)           | -                | (232)           |
| Other loss                        | (10)           | -           | (10)           | (16)            | -                | (16)            |
| Income before income taxes        | 752            | -           | 752            | 2,026           | -                | 2,026           |
| Income tax expense                | (255)          | -           | (255)          | (438)           | (250)            | (688)           |
| <b>Net income</b>                 | <b>\$ 497</b>  | <b>\$ -</b> | <b>\$ 497</b>  | <b>\$ 1,588</b> | <b>\$ (250)</b>  | <b>\$ 1,338</b> |
| <b>Basic earnings per share</b>   | <b>\$ 0.95</b> | <b>\$ -</b> | <b>\$ 0.95</b> | <b>\$ 3.00</b>  | <b>\$ (0.48)</b> | <b>\$ 2.52</b>  |
| <b>Diluted earnings per share</b> | <b>\$ 0.94</b> | <b>\$ -</b> | <b>\$ 0.94</b> | <b>\$ 2.95</b>  | <b>\$ (0.46)</b> | <b>\$ 2.49</b>  |

**CANADIAN NATIONAL RAILWAY COMPANY**  
**NON-GAAP MEASURES - unaudited**

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**Free cash flow**

The Company generated \$142 million and \$193 million of free cash flow for the three and nine months ended September 30, 2007, compared to \$391 million and \$1,131 million for the same periods in 2006. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the accounts receivable securitization program, less cash used by investing activities, and after the payment of dividends, calculated as follows:

| <i>In millions</i>                           | <b>Three months ended</b> |        | <b>Nine months ended</b> |          |
|--|---------------------------|--------|--------------------------|----------|
|  | <b>September 30</b>       |        | <b>September 30</b>      |          |
|  | <b>2007</b>               | 2006   | <b>2007</b>              | 2006     |
| Cash provided from operating activities      | \$ 430                    | \$ 854 | \$ 1,432                 | \$ 1,878 |
| Cash used by investing activities            | (336)                     | (378)  | (871)                    | (865)    |
| Cash provided before financing activities    | 94                        | 476    | 561                      | 1,013    |
| <i>Adjustments:</i>                          |                           |        |                          |          |
| Change in accounts receivable securitization | 152                       | -      | (52)                     | 375      |
| Dividends paid                               | (104)                     | (85)   | (316)                    | (257)    |
| <i>Free cash flow</i>                        | \$ 142                    | \$ 391 | \$ 193                   | \$ 1,131 |

SIGNATURES

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

**Canadian National Railway Company**

Date: October 23, 2007

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