

CANADIAN NATIONAL RAILWAY CO
Form 6-K
July 18, 2007

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

For the month of July, 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

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

Canadian National Railway Company

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Item

1. Press release dated July 18, 2007, "CN posts 2007 Investor Fact Book and corporate safety and environmental report on company website".
-

SIGNATURES

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

Canadian National Railway Company

Date: July 18, 2007

By: /s/ Cristina Circelli

Name: Cristina Circelli

Title: Deputy Corporate Secretary and
General Counsel

North America's Railroad

NEWS RELEASE

CN posts 2007 Investor Fact Book and corporate safety and environmental report on company website

MONTREAL, July 18, 2007 – CN (TSX: CNR)(NYSE: CNI) announced today the availability of two new publications on its website – the 2007 Investor Fact Book, and a corporate social responsibility report on the company's safety and environmental initiatives.

CN's 2007 Investor Fact Book is available on the Investors section of its website, www.cn.ca/investors. The Fact Book provides extensive information on the company's franchise, business model, outlook, and financial and operating performance. Printed copies can be obtained from CN Investor Relations, 935 de La Gauchetiere Street West, 16th floor, Montreal, Que., H3B 2M9.

CN also posted on the website its first integrated report on the company's 2006 safety and environmental initiatives. Called ***Delivering Responsibly***, the on-line report describes how CN operations, the safety of its employees, its communities and the environment are fundamentally intertwined. The report is based on the Global Reporting Initiative, which provides an internationally accepted framework for sustainability reporting. The report is available at: http://www.cn.ca/about/delivering_responsibly/en_delivering_responsibly.shtml. An abbreviated PDF version is available on the website for downloading and printing.

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.

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk and uncertainties, including the assumption that, while CN expects there may be continued weakness in certain segments of the North American economy in the near term, positive economic conditions in North America and globally will continue, 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, labour 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), as well as its 2007 quarterly consolidated financial statements and MD&A, for a summary of major risks.

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All financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). Canadian National Railway Company, together with its wholly-owned subsidiaries, is sometimes referred to as "the Company," "Canadian National," or "CN."

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws.

Except for historical information, certain statements contained in the *2007 Investor Fact Book* may be forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. Implicit in these statements is the assumption that while the Company expects a moderate slowdown in the North American economy in the near term, positive economic conditions in North America and globally will continue. This assumption although considered reasonable by the Company at the time of preparation, may not materialize. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. Such factors include the following: general economic and business conditions, which may impact demand for the Company's services; changes in, or compliance with government regulations (especially environmental laws and regulations); and other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the U.S. including the Company's 2006 annual information form and annual report, filed with Canadian securities regulators and on Form 40-F with the U.S. Securities and Exchange Commission. This *2007 Investor Fact Book* has been filed with the various securities regulators in each of the provinces of Canada and submitted on a Form 6-K with the U.S. Securities and Exchange Commission.

Ticker symbols

CNR

Toronto Stock Exchange

CNI

New York Stock Exchange

2 0 0 7

C N I n v e s t o r F a c t B o o k

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Welcome to the 2007 edition of the CN *Investor Fact Book*. Over the years, this book has proven to be an invaluable source of information about CN for investors, or anyone else with a strong interest in the CN story. The *Fact Book* describes CN's unique precision railroading model, our unparalleled North American franchise, our global reach via a unique tri-coastal port network, and our continued pursuit of sustainable, profitable growth.

In 2007, CN will further its commitment towards continuous improvement and innovation, beginning with the most important asset that distinguishes us from our competition: our people. We are adding to our innovative development programs, which already include our "Railroad MBA" and our "Hunter Camps," with the introduction of a Railroad Certification program. Over the next 12 to 18 months, we will teach and qualify over 2,000 managers as conductors or engineers. This will allow the majority of CN's management team to see first-hand the core of our operations, as well as the day-to-day experiences and challenges of some of our front-line employees. We know that this hands-on program will further improve the skills and the passion of our already exceptional team of railroaders.

We will continue to support our precision railroading model, which has helped to propel us to the top of the industry. We will continue to improve the productivity of our yard network with the extension of SmartYard and other initiatives. We will continue to sweat our assets and achieve greater efficiency. And, we will do it with a constant, intense focus on safety. The productivity story is not over.

CN also has ambitious plans to grow the business. With service that continues to set the standard, we're growing market share with existing customers, and attracting new ones. We're also leveraging our unique tri-coastal port network and capitalizing on growing global trade. CN has great expectations for the Prince Rupert container terminal. Once it's open for business, the terminal will become a new gateway for traffic moving between Asia and the huge consuming population of the U.S. Midwest.

connecting North America with the world

At the same time, we're responding to growing customer demand for integrated transportation solutions by broadening the scope of our non-rail service offering. CN this year created CN Worldwide North America, a new operating entity charged with managing, integrating, and growing CN's non-rail services including warehousing, distribution, customs services, and truck brokerage. These services will help generate new rail opportunities; market share increases with existing rail business, and backhaul opportunities through the Port of Prince Rupert to Asia. Combined with our unique port network and our solid North American franchise, we are providing local markets with a global reach.

CN has a proven record of delivering the goods, year in, year out, and we fully intend to continue to prove our business model, our operating philosophy, and our ideas. Our prospects for 2007 and beyond are exciting. I invite you to explore them in greater detail in the pages that follow.

E. Hunter Harrison
President and Chief Executive Officer

Financial & statistical highlights

Financial highlights

unaudited

\$ in millions, except per share data, or unless otherwise indicated

	2004(1)	2005	2006
Financial results			
Revenues (2)	\$6,769	\$7,446	\$7,929
Operating income	2,168	2,624	3,030
Adjusted net income (3)	1,258	1,556	1,810
Adjusted diluted earnings per share (3)(5)	2.17	2.77	3.40
Weighted-average number of shares diluted (millions) (5)	579.7	562.2	534.3
Financial ratios (%)			
Operating ratio (2)	68.0	64.8	61.8
Debt to total capitalization	35.7	35.5	36.3
Other information			
Dividend per share (5)	\$0.39	\$0.50	\$0.65
Net capital expenditures	1,072	1,180	1,298
Free cash flow (4)	1,025	1,301	1,343

(1) Includes the former Great Lakes Transportation LLC's railroads and related holdings (GLT) and the former BC Rail from May 10, 2004 and July 14, 2004, respectively.

(2) The Company reclassified certain operating expenses incurred in non-rail transportation services, which were previously netted with these related revenues.

(3) Adjusted to exclude items affecting the comparability of results. See Appendix B for a reconciliation of non-GAAP measures.

(4) See Appendix B for a reconciliation of non-GAAP measures.

(5) Reflects the two-for-one stock split effective February 28, 2006.

Statistical highlights*unaudited*

	2004(1)	2005	2006
Route miles (<i>includes Canada and the U.S.</i>)	19,304	19,221	20,264
Carloads (<i>thousands</i>)	4,578	4,841	4,824
Gross ton miles (<i>millions</i>)	332,807	342,894	352,972
Revenue ton miles (<i>millions</i>)	174,240	179,701	185,610
Employees (<i>average for the year</i>)	22,470	22,246	21,685
Employees (<i>end of year</i>)	22,679	21,540	21,811
Diesel fuel consumed (<i>U.S. gallons in millions</i>)	391	403	401
Average price per U.S. gallon (<i>\$ per U.S. gallon</i>) (2)	\$1.30	\$1.72	\$2.13

(1) Includes GLT and BC Rail from May 10, 2004 and July 14, 2004, respectively.

(2) Includes the impact of the Company's fuel hedging program.

CN is the only rail network on the North American continent to connect three coasts – the Pacific, the Atlantic, and the Gulf of Mexico. Through a series of marketing alliances, interline agreements, co-production arrangements and routing protocols, CN customers have access to all three NAFTA nations. Most recently, through a series of other strategic initiatives, customers now have enhanced access to an expanding range of international opportunities in an increasingly global marketplace.

Some of these recent initiatives include the acquisition of short lines in Alberta to help oil sands operators meet growing demand for energy; the development of CN WorldWide International, the Company's international freight-forwarding subsidiary; the start-up of CN WorldWide North America, which will expand the scope of CN's existing warehousing, distribution and other non-rail capabilities; and the opening of the new Prince Rupert, BC intermodal facility in autumn 2007 – well positioned for increasing trans-Pacific trade.

These latest developments are characterized by the same smooth, flawless, step-by-step integration that customers experienced following CN's acquisitions of Illinois Central in 1999, Wisconsin Central in 2001, and Great Lakes Transportation LLC's railroads and related holdings (GLT) and BC Rail in 2004. CN gives shippers more options and greater reach in the expanding markets for north-south and international trade.

CN's business strategy is guided by five core principles: providing good service, controlling costs, focusing on asset utilization, committing to safety, and developing people. The Company continues to innovate to improve its products, its ability to sell them, and its customer support capability. CN's efforts to increase speed, efficiency and reliability through the execution of its precision railroading concept are ongoing and never-ending.

The Company's revenue is derived from movements of a balanced mix of goods between diverse origins and destinations. This product and geographic diversity enhances CN's capacity to withstand economic challenges, as well as its ability to capitalize on revenue-growth opportunities. In 2006, no one commodity group in CN's business mix accounted for more than 24 per cent of its freight revenues.¹ From a geographic standpoint, CN is equally well diversified. In 2006, approximately 32 per cent of revenues came from transborder traffic, 25 per cent from offshore traffic, 23 per cent from Canadian domestic traffic, and 20 per cent from U.S. domestic traffic.²

CN originates approximately 87 per cent of the traffic moving along its network. This enables the Company to capitalize on service advantages and build on opportunities to efficiently use assets.

CN currently employs about 21,700 people and operates approximately 20,300 route miles of track. In 2006, the Company generated record performances on a number of fronts: \$7.9 billion in revenue¹, just over \$1.3 billion of free cash flow³, and an operating ratio of 61.8¹ per cent, representing a 3 point improvement compared to 2005. At the same time, this is over 15 points better than the average of other North American Class I railroads, and more than 10 points better than CN's nearest competitor's operating ratio.⁴

CN Commercialization Act

The Company was privatized in 1995. The privatization transformed CN from a government Crown Corporation into an investor-owned company. As required by the CN Commercialization Act, there is a 15 per cent limit on ownership of the Company's common shares by any holder alone or together with associates.

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1. Adjusted to reflect the Company's reclassification of certain operating expenses incurred in non-rail transportation services. These expenses were previously netted with their related revenues. This reclassification was completed in the first quarter of 2007.
 2. Revised to reflect final destinations.
 3. See Appendix B for a reconciliation of non-GAAP measures.
 4. Based on publicly available information.

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1. *Adjusted to reflect the Company's reclassification of certain operating expenses incurred in non-rail transportation services, which were previously netted with these related revenues.*
2. *Revised to reflect final destinations.*

Timeline since privatization

November 1995

Privatization of CN

February 1998

Illinois Central acquisition announced

April 1998

CN and Kansas City Southern
announce a 15-year marketing alliance

July 1999

Acquisition of Illinois Central

December 1999

CN/BNSF proposed combination
announced

July 2000

CN/BNSF announce termination of efforts
related to proposed combination
agreement, following announcement of
the U.S. Surface Transportation Board's
(STB's) 15-month moratorium on
rail-merger applications

January 2001

Announcement of Wisconsin Central
acquisition

October 2001

Acquisition of Wisconsin Central

October 2003

Announcement of GLT acquisition

November 2003

Announcement of BC Rail transaction

May 2004

CN closes GLT acquisition

July 2004

CN closes BC Rail transaction

2007

Precision railroading

CN's precision railroading initiatives play a big part in the Company's industry-leading operational efficiency and productivity. Precision railroading is an evolution of scheduled railroading, a concept that CN pioneered in the North American railroad industry when it introduced its service plan in 1998. Under the plan, CN runs regularly scheduled trains that leave at predetermined times. Each car or container has a specific trip plan that fits into the design of the train schedule.

Precision railroading focuses clearly on what matters most to the customer – the carload and the customer's shipment, rather than the train itself. That same focus also exerts a strong influence on the development – and continuous improvement – of every CN process that affects delivery. As a result, the discipline to make things run like clockwork permeates the entire CN organization.

The best way to create value for shareholders is to create value for customers. CN's customers are benefiting from precision railroading's reduced transit times and improved consistency. For CN's customers, the Company's precision railroading means better service, reduced inventory and capital requirements, reduced need for private fleets, and cost competitiveness with other transportation modes.

For CN, the quality of service afforded by the trip plan has led to market share gains, revenue growth, and an industry-low operating ratio. With precision railroading, CN is more competitive and more reliable – with better cost control and improved asset utilization, both on the network and in its yards.

While CN transports commodities, its product offering is not sold like a commodity. CN provides a premium transportation service to customers and prices accordingly. The Company's service principle is quite simple: "to do what we say we'll do." Shippers value CN's quality service because it allows them to better plan their own production schedules and inventory levels, reduce distribution costs, and deal reliably with their own customers. This high-quality service offering is driven by precision railroading and continuous refinement of the Company's service plan – and all of this within a culture of disciplined execution. Quality service opens up new markets for CN and its customers – particularly in those areas where the railroad industry historically had not been fully competitive with the truck mode. These new opportunities – driven by CN's enhanced service offering – enable the Company to grow its top line through market-share gains and improved yields with higher quality revenues. Lower costs, better asset utilization, increased fluidity and additional capacity are just some of the other related benefits of CN's premium service offering.

Continuous improvement

Trip Plan Compliance and Car Velocity are just two of the key statistics used at CN – important measures of service performance and network velocity.

CN continues to strive to consistently exceed 90 per cent for Trip Plan Compliance. In 2006 the Company achieved 89 per cent for this measure – moving closer to its target.

Car Velocity is an average-speed calculation – expressed in car miles per car day – of the car movements from time of release at one location to time of arrival at destination or interchange location. In 2006, velocity improved by 10 per cent to 171 car miles per car day over the comparable figure for 2005. The Company is targeting further improvements in 2007.

Acquiring higher-quality assets

CN implemented an aggressive locomotive-renewal

program several years ago to continuously improve fuel efficiency and service reliability. The program includes the remanufacture of older units and the purchase of new locomotives.

Over the past six years, CN has invested heavily in new, more reliable locomotives. The reliability of these new units helps to strengthen the Company's ability to provide improved service by reducing failures and bad orders. At the same time, these new units are about 15 per cent more fuel-efficient than their predecessors, and comply fully with the latest regulatory requirements for reduced locomotive exhaust emissions. Since 2000, CN has purchased more than 200 new, more fuel-efficient locomotives. The newest additions to the fleet a total of 60 engines purchased from 2005 to 2006 comply with U.S. EPA limits, resulting in approximately 40 per cent less nitrogen oxide emissions compared to unregulated locomotives.

**Owned and leased at end of year*

Getting the most from existing assets

There is a strong drive for enhanced asset utilization across the entire CN network. In Western Canada, CN is extending sidings and double-stack clearances on its B.C. North line to accommodate container traffic from Prince Rupert. The Company is also adding new siding capacity between Winnipeg and Chicago.

In Memphis – a key CN operating hub, the Company is reconfiguring its Johnston Yard switching facility. This strategic effort will result in a more efficient layout, positioning the yard to handle future traffic growth in the region quickly and efficiently.

CN has also developed SmartYard, another asset utilization initiative. This powerful information-technology tool reduces dwell time and improves yard productivity – while supporting the demands of precision railroading. The Company implemented SmartYard on a pilot basis at Toronto’s MacMillan Yard in 2005 – and is now expanding the concept to other yards.

Railroad industry partnerships

– routing protocols

CN continues to lead the industry with its ongoing identification and implementation of efficiencies to further improve service for North America’s – and the world’s – shippers. CN’s continued expansion of its routing protocol effort has been a major initiative for the Company and the industry. CN currently has routing protocol agreements with BNSF Railway Company (BNSF), CSXT, Norfolk Southern Railway (NS), Union Pacific Railroad (UP), Kansas City Southern Railway (KCS) and Canadian Pacific Railway Company (CP).

Routing protocols serve to reduce rail-freight costs industry-wide by placing traffic on the most efficient routing – regardless of ownership. The result is a structured plan to direct rail traffic flows through the most efficient interchange locations in order to improve both transit times and asset utilization – thereby making the most efficient use of capacity.

Customers can now reach key markets in Canada, the U.S. – and beyond – more efficiently, thanks to increased traffic velocity, reduced number of handlings, shortened routes, and the use of less congested gateways.

– co-production

Co-production arrangements, like routing protocols, are designed to increase efficiencies and improve service by optimizing the use of current industry infrastructure while maintaining shippers’ competitive options.

CN’s first entry into co-production arrangements was with CP in 2000. To improve service to the Port of Vancouver, CN and CP developed an agreement to jointly increase capacity on key sections of track in the Vancouver area. This improved the fluidity of rail operations over existing infrastructure. CN and CP subsequently entered into another agreement to improve railway transit times and asset utilization in British Columbia, Alberta and Ontario. In 2004, CN signed an agreement with CP and NS – providing CN customers in Quebec and the Maritimes with quicker access to important eastern U.S. markets.

In January 2006, CN reached a number of new agreements with: BNSF – covering key locations where networks interact, including Vancouver, Chicago, and Memphis to southern Illinois; CP – improving the fluidity of rail operations in British Columbia’s Lower Mainland, resulting in enhanced customer service and increased growth potential for Pacific Gateway ports and terminals; and CSXT – involving CN’s movement of CSXT traffic to and from Sarnia, ON and CSXT connections in Buffalo, NY, and Toledo, OH.

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Sales, Marketing, & Service

CN's ports global trade gateways

Alberta oil & gas development

Intermodal

Grain & fertilizers

Coal

Forest products

Automotive

Petroleum & chemicals

Metals & minerals

CN's precision railroading model is the foundation of the Company's industry-leading operational efficiency and productivity. The Company places great importance on the focus that precision railroading allows it to give to each individual customer shipment. For CN's customers, precision railroading means better service, reduced inventory, better asset utilization and cost competitiveness with other modes of transport.

CN's Sales, Marketing and Service departments are committed to the provision of the highest levels of customer service. More than ever, CN's Sales force is focused on increasing market share with existing customers, and bringing new customers onto the rails. Supporting the Sales effort is the Company's competitive service plan, integrated eCommerce systems and tools, and an extensive network of complementary services — including transloading, warehousing and truck brokerage.

The Company's Marketing department is focused on ensuring that CN has the right product to sell. That means making sure that CN is easy to do business with — from fair pricing to car ordering to billing. It also means ensuring that CN has the right capacity — equipment and infrastructure, service reliability — from door-to-door, and the right access — beginning with the Company's core franchise, including its unique access to ports on all three North American coasts.

The Company's Service group works to improve customer satisfaction and improve organizational efficiency by developing lasting solutions to repetitive service issues. The Service department is also freeing up time for the Sales force — allowing them more time to work with customers on new opportunities.

With its transportation-solution approach to customers and its industry-leading service plan, CN is helping its customers reduce their overall transportation costs. In doing so, the Company is attracting new customers, and steadily increasing its market share with existing ones.

CN's ports — global trade gateways

CN is the only rail network on the North American continent to connect three coasts — the Pacific, the Atlantic and the Gulf of Mexico.

CN's ports — providing effective entry and exit points to the vast North American market — are a key resource for customers interested in capitalizing on increasing global trade. CN customers benefit from the Company's experience, expertise, and dedication to customer service. In addition, CN's state-of-the-art communications technology and excellent working relationships with customs officials ensure the swift movement of freight across North America's borders.

CN's tri-coastal network includes ports on the Pacific (Vancouver, Prince Rupert and Kitimat, BC), the Atlantic (Halifax, NS; Saint John, NB; Quebec City and Montreal, QC), and the Gulf of Mexico (Mobile, AL; Gulfport, MS; and New Orleans, LA). When combined with the Company's extensive North American franchise, including its network of transload and distribution facilities, intermodal services, trucking services, marketing alliances, and interline agreements, CN's ports are truly *the* gateway to global trade.

spotlight

Prince Rupert

Prince Rupert — already a key terminal for bulk exports (including the movement of coal through Ridley Terminals Inc. and grain through Prince Rupert Grain Ltd.) — is positioned to become North America's newest West Coast intermodal gateway.

The Port of Prince Rupert intermodal terminal, scheduled to open in autumn 2007, is strategically located to handle growing demand on one of the world's busiest shipping corridors. The facility will be equipped with three super post-panamax cranes and will have a Phase I capacity of 500,000 TEUs (twenty-foot equivalent units). A potential phase II is projected to have a 2 million-TEU capacity by 2011.

The Port of Prince Rupert offers many advantages for potential customers, including:

— Closest port to Asia by up to 58 hours sailing time

☐ No congestion

☐ Deepest harbor in North America ☐ ability to accommodate 12,000-TEU superships

☐ Safest West Coast port in terms of navigational risk factors

☐ Closest port to open ocean, minimizing pilotage time

☐ Direct connection to CN's high-capacity, congestion-free mainline

☐ Competitive transit times to the Chicago, Memphis and Detroit markets

New backhaul opportunities

The new flow of imports through Prince Rupert provides an excellent opportunity for exporters to attain the shipping capacity they require for their Asian markets. CN's North American franchise provides excellent access to Canada's natural resource base, including grain and grain products and forest products. Additionally, CN has access to large U.S. supplies of recycled paper, cotton, and hardwood lumber.

CN is well positioned to serve Canada's oil sands development

Canada's oil sands deposits in northern Alberta are second only to Saudi Arabia's reserves. According to the Conference Board of Canada, industry will spend more than \$100 billion on oil sands development, construction

and upgrading over the next 10 years.

For CN, those numbers add up to significant opportunity. The Company is well equipped to play a key role in the transportation, logistics, and transloading of steel, pipes, equipment, machinery, cement and other materials needed for oil sands infrastructure construction. These materials come from points throughout the vast CN network, and from overseas. There are other opportunities as well for CN, since materials and equipment are also needed for northern Alberta's industrial development and expansion of surrounding residential and commercial areas. CN is uniquely positioned to capitalize on these opportunities, with its Alberta main line rail network located further north, close to the action.

Alberta oil & gas development

Opportunity in the pipeline

CN has been focused on oil and gas development opportunities for a number of years now. Crude oil prices have been driving the search for new energy sources, and also stimulating demand for wider, more efficient pipelines. Daily production is expected to at least triple over the next 10 to 15 years – while about 70 per cent of existing pipelines are already at capacity.

Using those statistics, CN took a closer look at various pipeline initiatives, and then, in conjunction with the pipeline companies themselves, identified those projects with the greatest potential. The result is a five-year pipeline market plan, reinforced by a multifunctional CN commitment to make the Company the preferred logistics partner for this market. CN's strong North American franchise, access to numerous ports, and key transload and distribution facilities position the Company to grow its oil and gas pipe-related business – whether from local North American suppliers or Asian imports.

Diluent – keeping it flowing

The heavy crude, or bitumen, found in Alberta's oil sands does not flow at normal temperatures and pressures. So transportation of this heavy crude through pipelines requires mixing with lighter condensate. This condensate, commonly referred to as diluent, is simply any mixture of relatively light hydrocarbons which remain liquid at normal temperatures and pressures.

With the significant increase in oil sands production, diluent is in short supply in Alberta. In the second half of 2006, EnCana Corporation began importing diluent to the CN-served Kitimat terminal in northwestern British Columbia. CN then transports the diluent into Alberta by rail. Also in the second half of 2006, CN began rail shipments of diluent originating in Louisiana and Texas. Diluent will continue to be a key part of existing and future oil sands development. CN, with its West Coast ports and access to key suppliers in the Gulf Coast, is well positioned to capitalize on those opportunities.

In the heart of – Upgrader Alley

CN is initially investing approximately \$30 million in the Fort Saskatchewan Oil and Gas Distribution Centre. The facility is situated within what has become known as – Upgrader Alley – named after the projects planned for the Sturgeon-Strathcona County areas near Edmonton. CN's investment is designed to meet the transportation, storage and distribution needs arising from the burgeoning demand for steel and construction materials from oil sands and energy-related industry, and from the demand for petrochemical byproducts generated by these sectors.

These new upgraders, estimated to cost a combined \$20-billion over the next decade, are planned for Alberta's industrial heartland, and all of them will be located near the new Fort Saskatchewan Oil and Gas Distribution Centre. The new center complements several of the new facilities in which CN has invested in this sector. These include CN's Oil and Gas Services Centre (OGSC) which handles primarily pipe and long products; the Edmonton Distribution Centre (EDC), which handles other steel products; and the Edmonton Bissell CargoFlo, which handles methanol and similar products.

CN also sees growth opportunities in many of the outbound commodities that will be produced at these upgraders once they are operational. These commodities include sulfur, petroleum coke, asphaltenes, LPGs, other derivatives, and in some cases low sulfur diesel fuel. Although shipments will not move for another few years, planning is already in progress, and CN is playing an increasingly important advisory role on the logistics,

engineering and marketing fronts for these upgrader projects.

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Intermodal

The Intermodal group consists of two main market segments: domestic and international.

The domestic segment, which represented 48 per cent of the group's revenues in 2006, transports consumer products and manufactured goods. This segment is made up of domestic Canada, domestic U.S., Mexico and transborder traffic, operating through both retail and wholesale channels. For the retail product, CN provides full door-to-door transportation with rail and trucking service. For the wholesale product, CN provides terminal-to-terminal train service to motor carriers, intermodal marketing companies, third-party logistics companies, and other transportation intermediaries.

Consumer markets drive the domestic segment, with market growth generally tied to the economy. This market-driven offering is very competitive with the trucking industry, and focuses on truck-competitive, cost-effective service. CN Intermodal service offers a 24-hour advantage over its rail competition from central to Western Canada. At the same time, CN Intermodal is competitive with single truck driver service to the Winnipeg, Calgary, Edmonton and Vancouver markets. Additionally, CN is the only major rail service option east of Montreal. As a result of these service advantages, CN handles the majority of the Canadian wholesale customer base.

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Gate to Pad

CN Intermodal recently embarked on its Gate to Pad project - an extension of its successful reservation processes. With Gate to Pad, the goals are to streamline the gate process and increase amount of traffic live loaded to rail. Just-in-time live loading reduces the time and cost of duplicate handling and storage, since the container or trailer is loaded directly from the truck chassis to rail and vice versa.

As part of this project, CN will install its Automated Gate System (AGS) at Vancouver, Winnipeg and Montreal in 2007. AGS is already in operation at Montreal and Edmonton.

AGS does more than just streamline the gate process. It also provides a higher level of security through the use of biometrics. This technology helps to confirm driver identity and provides a digital photograph of the (trailer, container and chassis) condition.

Additionally, CN chassis RFID (radio frequency identification) tagging - launched on a pilot-project in Toronto last year - will also help to increase gate throughput and control of CN-owned equipment.

The international segment, which represented 52 per cent of Intermodal's revenues in 2006, transports import and export container traffic on behalf of ocean-carrier companies. CN handles international freight through the ports of Vancouver; Montreal; Saint John, NB; Halifax and New Orleans. Through its U.S. rail connections at Chicago, Memphis, and Buffalo, NY, CN connects to U.S. East and West coast ports.

The international segment is driven by North American economic and trade conditions. Key growth markets for the international segment have been between the ports of Vancouver, Halifax and Montreal and central Canada; and between the ports of Vancouver and Montreal and the U.S. Midwest.

Review

For the year ended December 31, 2006, Intermodal revenues increased by \$142 million, or 11 per cent compared to 2005. The increase was mainly due to freight rate increases; growth in international container traffic, primarily from Asia; and increased domestic movements, particularly to transborder markets and Western Canada. Partly offsetting these gains was the translation impact of the stronger Canadian dollar.

Intermodal

Port of Halifax

Halifax is CN's gateway to and from Europe. It is also a key port for the routing of containerized products between Europe and North American markets via the Panama and Suez canals. It is estimated to be 1,850 nautical miles closer to Mumbai, India than the Suez port. Adjacent to Mumbai is the Jawaharlal Nehru Port with a capacity of 1.5 million TEUs (twenty-foot equivalent units) in its latest fiscal year. The port has a growth rate of 24 per cent. Trade between Canada and India is growing and trade between the U.S. and India.

Halifax has one of the world's deepest harbors and has a port capacity of about 550,000 TEUs. With minimal additional investment, the Port of Halifax could potentially double their existing capacity annually.

CN's network reach and service package are major competitors. With rising import/export container traffic, CN is considering a new facility to transfer the contents of import containers to intermodal containers that the Company already has available in Halifax. This is a fast and cost-effective transportation service for shippers, and is expected to increase in East Coast container volumes.

Outlook

With the trucking industry's driver shortages and rising fuel costs, conditions are favorable for intermodal. The Company is expected to continue to shift traffic from truck to Intermodal in all Canadian and U.S. domestic segments. The intermodal market is expected to grow as global trade increases. The anticipated opening of the Prince Rupert container terminal is a significant opportunity in this segment. As a result of CN's superior transit times, availability and service, the Company is well positioned to grow in all segments.

In 2007, CN will take delivery of 50 new 4,300-horsepower locomotives for use in its intermodal service. These additions to the fleet will allow CN to tap growth in container traffic to and from the intermodal terminal at the Port of Prince Rupert.