

A message from E. Hunter Harrison



(from left to right): **Keith Creel**, Executive Vice-President Operations; **Claude Mongeau**, Executive Vice-President and Chief Financial Officer; **E. Hunter Harrison**, President and Chief Executive Officer; **James Foote**, Executive Vice-President Sales and Marketing; **Sean Finn**, Executive Vice-President Corporate Services and Chief Legal Officer

Dear fellow shareholders:

I'm a bottom-line guy. And I'm not talking just about numbers here. Getting to the bottom line shortens the conversation to its essentials and removes all excuses. Did you get the job done or didn't you?

Well, I'm pleased to report to you that CN got it done in 2008. In addition to solid financial results, we improved network velocity and safety performance while continuing to build for the future. We proved ourselves once again as a company that can perform consistently even when times are challenging.

Strong financial and operational performance

CN faced another tough operating environment in 2008. We again dealt with extreme weather in the first quarter – the worst in decades. Two of our key businesses experienced downturns of major proportions – forest products because of the continued decline in U.S. housing activity, and automotive because of a significant decline in automotive sales.

In spite of these challenges, we achieved revenues of \$8,482 million, net income of \$1,895 million, diluted earnings per share of \$3.95 and free cash flow of \$794 million* in 2008. Our operating ratio for the year was 65.9 per cent, still well ahead of

our Class I peers. We continued to return cash to our shareholders in 2008 and announced the Board's authorization of another stock repurchase program for 2008/2009. We also increased our dividend for the 13th consecutive year in January 2009.

What we have built together

How did we achieve these results? By doing what we do best: provide a high-quality service at a fair price to our customers, while working hard to manage our costs, use our assets efficiently, develop our people and in the process not get anybody hurt. I've seen it proven my entire career that if you do these five things well, you'll succeed in this business.

We've built something special here at CN. Our diverse franchise, unique business model and strong balance sheet put us in an excellent position in an important industry – rail is the backbone of the North American economy, and nobody operates a railroad better than CN.

Continuing to invest in CN's future

CN's 2008 performance is the direct result not just of our fundamental strengths, but also of the investments we've made over the past few years to grow this business, gain market share and

*See page 89 of this report for a reconciliation of this non-GAAP measure.

“I am extremely proud of this organization and its people. As a lifelong railroader, it’s been a great thing to see what we can accomplish together through passion, discipline, guts and hard work. That’s right, guts – it takes courage to change the status quo.” – E. Hunter Harrison

position ourselves for the long term. Among others, our initiatives to build new CN capabilities in Prince Rupert and near the Alberta oil sands, and our efforts to expand our presence in non-rail services, are continuing to bear fruit.

Our investments in lengthened sidings, enhanced track integrity and safety have contributed to ongoing improvement in operational performance and service quality. We continued to invest in the physical plant in 2008, spending more than \$1.5 billion on capital improvements that included approximately \$1.1 billion on track infrastructure, about \$200 million on our locomotive and railcar fleet, and about \$300 million on facilities such as transload and distribution centres.

At the end of the year, we were very pleased to receive the U.S. Surface Transportation Board’s (STB) approval for our acquisition of a major portion of the Elgin, Joliet & Eastern Railway Company (EJ&E). This is an extremely important addition to our network that will allow us to skirt rail congestion in the Chicago hub. As it stands, it sometimes takes as long to get through Chicago’s 30-mile hub as it does to get there from Winnipeg. The EJ&E acquisition will address that, in the process helping us deliver a big improvement in what we can offer customers shipping to key North American markets. In another transaction, we acquired three rail subsidiaries from Quebec Railway Corp., enhancing our seamless service to customers in Eastern Canada.

What we’ve done is worked steadily to improve our ability to market a unique, high-value transportation product to a broad customer base – services that have strong relevance no matter where we are in the economic cycle.

People are key to CN’s potential

Ours is a story of a solid strategy that’s making steady progress on all fronts – a focus on structural growth opportunities, on innovating for competitive advantage and accelerated customer value, and on continuously building our team.

People are the most critical element of success, and CN’s are the best in the industry. Our bench strength is excellent – this is the most talented team I’ve ever been associated with. And the CN railroader culture continues to get stronger every year.

We proved in 2008 that CN can deliver strong results in tough times. We have the best people, we’re the industry’s most efficient operator, and our solid franchise and innovative business model provide new opportunities for growth.

This company’s story is far from over. That’s the bottom line.

Sincerely,



E. Hunter Harrison

President and Chief Executive Officer