

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

(In millions, except per share data)

| | Three months ended December 31 | | Year ended December 31 | |
|--|-----------------------------------|---------------|---------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(Unaudited)</i> | | | |
| Revenues | \$ 1,941 | \$ 2,000 | \$ 7,897 | \$ 7,929 |
| Operating expenses | | | | |
| Labor and fringe benefits | 340 | 474 | 1,701 | 1,823 |
| Purchased services and material | 259 | 271 | 1,045 | 1,027 |
| Fuel | 307 | 227 | 1,026 | 892 |
| Depreciation and amortization | 173 | 167 | 677 | 650 |
| Equipment rents | 60 | 63 | 247 | 198 |
| Casualty and other | 66 | 42 | 325 | 309 |
| Total operating expenses | 1,205 | 1,244 | 5,021 | 4,899 |
| Operating income | 736 | 756 | 2,876 | 3,030 |
| Interest expense | (85) | (80) | (336) | (312) |
| Other income | 159 | 27 | 166 | 11 |
| Income before income taxes | 810 | 703 | 2,706 | 2,729 |
| Income tax recovery (expense) | 23 | (204) | (548) | (642) |
| Net income | \$ 833 | \$ 499 | \$ 2,158 | \$ 2,087 |
| Earnings per share | | | | |
| Basic | \$ 1.70 | \$ 0.97 | \$ 4.31 | \$ 3.97 |
| Diluted | \$ 1.68 | \$ 0.95 | \$ 4.25 | \$ 3.91 |
| Weighted-average number of shares | | | | |
| Basic | 489.8 | 515.5 | 501.2 | 525.9 |
| Diluted | 495.9 | 523.6 | 508.0 | 534.3 |

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 the presentation of 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 \$58 million and \$213 million in the three months and year ended December 31, 2006, respectively. In addition, the Company reclassified its non-rail transportation revenues to Other revenues. Previously, various revenues for non-rail transportation services were reported in both Rail freight revenues and Other revenues.

These unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at December 31, 2007 and December 31, 2006, and its results of operations, changes in shareholders' equity and cash flows for the three months and years ended December 31, 2007 and 2006. These consolidated financial statements have been prepared using accounting policies consistent with those used in preparing the Company's 2007 Annual Consolidated Financial Statements and should be read in conjunction with such statements, notes thereto and Management's Discussion and Analysis (MD&A).

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

(In millions)

| | December 31 2007 | December 31 2006 |
|---|---------------------|---------------------|
| | <i>(Unaudited)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 310 | \$ 179 |
| Accounts receivable | 370 | 692 |
| Material and supplies | 162 | 189 |
| Deferred income taxes | 68 | 84 |
| Other | 138 | 192 |
| | 1,048 | 1,336 |
| Properties | 20,413 | 21,053 |
| Intangible and other assets | 1,999 | 1,615 |
| Total assets | \$ 23,460 | \$ 24,004 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued charges | \$ 1,282 | \$ 1,823 |
| Current portion of long-term debt | 254 | 218 |
| Other | 54 | 73 |
| | 1,590 | 2,114 |
| Deferred income taxes | 4,908 | 5,215 |
| Other liabilities and deferred credits | 1,422 | 1,465 |
| Long-term debt | 5,363 | 5,386 |
| Shareholders' equity: | | |
| Common shares | 4,283 | 4,459 |
| Accumulated other comprehensive loss | (31) | (44) |
| Retained earnings | 5,925 | 5,409 |
| | 10,177 | 9,824 |
| Total liabilities and shareholders' equity | \$ 23,460 | \$ 24,004 |

These unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. GAAP, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as at December 31, 2007 and December 31, 2006, and its results of operations, changes in shareholders' equity and cash flows for the three months and years ended December 31, 2007 and 2006. These consolidated financial statements have been prepared using accounting policies consistent with those used in preparing the Company's 2007 Annual Consolidated Financial Statements and should be read in conjunction with such statements, notes thereto and MD&A.

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

(In millions)

| | Three months ended December 31 | | Year ended December 31 | |
|--|-----------------------------------|-----------------|---------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Unaudited) | | | |
| Common shares | | | | |
| Balance, beginning of period | \$ 4,359 | \$ 4,476 | \$ 4,459 | \$ 4,580 |
| Stock options exercised and other | 6 | 43 | 89 | 133 |
| Share repurchase programs | (82) | (60) | (265) | (254) |
| Balance, end of period | \$ 4,283 | \$ 4,459 | \$ 4,283 | \$ 4,459 |
| Accumulated other comprehensive loss | | | | |
| Balance, beginning of period | \$ (257) | \$ (520) | \$ (44) | \$ (222) |
| Other comprehensive income (loss): | | | | |
| Unrealized foreign exchange gain (loss) on: | | | | |
| Translation of the net investment in foreign operations | (90) | 246 | (1,004) | 32 |
| Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries | 22 | (196) | 788 | (33) |
| Pension and other postretirement benefit plans: | | | | |
| Net actuarial gain arising during the period | 391 | - | 391 | - |
| Prior service cost arising during the period | (12) | - | (12) | - |
| Amortization of net actuarial loss included in net periodic benefit cost | 11 | - | 49 | - |
| Amortization of prior service cost included in net periodic benefit cost | 5 | - | 21 | - |
| Minimum pension liability adjustment | - | 1 | - | 1 |
| Derivative instruments | (1) | - | (1) | (57) |
| Other comprehensive income (loss) before income taxes | 326 | 51 | 232 | (57) |
| Income tax recovery (expense) | (100) | 11 | (219) | (179) |
| Other comprehensive income (loss) | 226 | 62 | 13 | (236) |
| Adjustment to reflect the funded status of benefit plans: | | | | |
| Net actuarial gain (net of income tax expense of \$(200) for 2006) | - | 434 | - | 434 |
| Prior service cost (net of income tax recovery of \$14 for 2006) | - | (31) | - | (31) |
| Reversal of minimum pension liability adjustment (net of income tax expense of \$(6) for 2006) | - | 11 | - | 11 |
| Balance, end of period | \$ (31) | \$ (44) | \$ (31) | \$ (44) |
| Retained earnings | | | | |
| Balance, beginning of period | \$ 5,557 | \$ 5,306 | \$ 5,409 | \$ 4,891 |
| Adoption of new accounting pronouncements ⁽¹⁾ | - | - | 95 | - |
| Restated balance, beginning of period | 5,557 | 5,306 | 5,504 | 4,891 |
| Net income | 833 | 499 | 2,158 | 2,087 |
| Share repurchase programs | (363) | (313) | (1,319) | (1,229) |
| Dividends | (102) | (83) | (418) | (340) |
| Balance, end of period | \$ 5,925 | \$ 5,409 | \$ 5,925 | \$ 5,409 |

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

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

(In millions)

| | Three months ended December 31 | | Year ended December 31 | |
|---|-----------------------------------|---------------|---------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(Unaudited)</i> | | | |
| Operating activities | | | | |
| Net income | \$ 833 | \$ 499 | \$ 2,158 | \$ 2,087 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | | | |
| Depreciation and amortization | 172 | 167 | 678 | 653 |
| Deferred income taxes | (207) | 23 | (82) | 3 |
| Gain on sale of Central Station Complex | (92) | - | (92) | - |
| Gain on sale of investment in English Welsh and Scottish Railway | (61) | - | (61) | - |
| Other changes in: | | | | |
| Accounts receivable | 267 | 403 | 229 | (17) |
| Material and supplies | 44 | 18 | 18 | (36) |
| Accounts payable and accrued charges | 120 | 48 | (351) | 197 |
| Other net current assets and liabilities | (12) | (34) | 39 | 58 |
| Other | (122) | (61) | (119) | 6 |
| Cash provided from operating activities | 942 | 1,063 | 2,417 | 2,951 |
| Investing activities | | | | |
| Property additions | (490) | (472) | (1,387) | (1,298) |
| Acquisitions, net of cash acquired | (25) | (26) | (25) | (84) |
| Sale of Central Station Complex | 351 | - | 351 | - |
| Sale of investment in English Welsh and Scottish Railway | 114 | - | 114 | - |
| Other, net | 26 | 14 | 52 | 33 |
| Cash used by investing activities | (24) | (484) | (895) | (1,349) |
| Financing activities | | | | |
| Issuance of long-term debt | 846 | 183 | 4,171 | 3,308 |
| Reduction of long-term debt | (1,120) | (234) | (3,589) | (3,089) |
| Issuance of common shares due to exercise of stock options and related excess tax benefits realized | 4 | 42 | 77 | 120 |
| Repurchase of common shares | (445) | (373) | (1,584) | (1,483) |
| Dividends paid | (102) | (83) | (418) | (340) |
| Cash used by financing activities | (817) | (465) | (1,343) | (1,484) |
| Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents | (5) | 9 | (48) | (1) |
| Net increase in cash and cash equivalents | 96 | 123 | 131 | 117 |
| Cash and cash equivalents, beginning of period | 214 | 56 | 179 | 62 |
| Cash and cash equivalents, end of period | \$ 310 | \$ 179 | \$ 310 | \$ 179 |
| Supplemental cash flow information | | | | |
| Net cash receipts from customers and other | \$ 2,209 | \$ 2,425 | \$ 8,139 | \$ 7,946 |
| Net cash payments for: | | | | |
| Employee services, suppliers and other expenses | (979) | (1,043) | (4,323) | (4,130) |
| Interest | (67) | (67) | (340) | (294) |
| Workforce reductions | (7) | (8) | (31) | (45) |
| Personal injury and other claims | (28) | (47) | (86) | (107) |
| Pensions | (25) | (66) | (75) | (112) |
| Income taxes | (161) | (131) | (867) | (307) |
| Cash provided from operating activities | \$ 942 | \$ 1,063 | \$ 2,417 | \$ 2,951 |

Certain of the 2006 comparative figures have been reclassified in order to be consistent with the 2007 presentation.

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

| | Three months ended December 31 | | Year ended December 31 | |
|---|-----------------------------------|--------|---------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(Unaudited)</i> | | | |
| Statistical operating data | | | | |
| Rail freight revenues (\$ millions) | 1,763 | 1,824 | 7,186 | 7,254 |
| Gross ton miles (GTM) (millions) | 89,315 | 88,407 | 347,898 | 352,972 |
| Revenue ton miles (RTM) (millions) | 47,151 | 45,966 | 184,148 | 185,610 |
| Carloads (thousands) | 1,205 | 1,146 | 4,744 | 4,824 |
| Route miles (includes Canada and the U.S.) | 20,421 | 20,264 | 20,421 | 20,264 |
| Employees (end of period) | 22,696 | 22,250 | 22,696 | 22,250 |
| Employees (average for the period) | 22,796 | 22,196 | 22,389 | 22,092 |
| Productivity | | | | |
| Operating ratio (%) | 62.1 | 62.2 | 63.6 | 61.8 |
| Rail freight revenue per RTM (cents) | 3.74 | 3.97 | 3.90 | 3.91 |
| Rail freight revenue per carload (\$) | 1,463 | 1,592 | 1,515 | 1,504 |
| Operating expenses per GTM (cents) | 1.35 | 1.41 | 1.44 | 1.39 |
| Labor and fringe benefits expense per GTM (cents) | 0.38 | 0.54 | 0.49 | 0.52 |
| GTM per average number of employees (thousands) | 3,918 | 3,983 | 15,539 | 15,977 |
| Diesel fuel consumed (U.S. gallons in millions) | 102 | 101 | 392 | 401 |
| Average fuel price (\$/U.S. gallon) | 2.70 | 2.16 | 2.40 | 2.13 |
| GTM per U.S. gallon of fuel consumed | 876 | 875 | 887 | 880 |
| Financial ratio | | | | |
| Debt to total capitalization ratio (% at end of period) | 35.6 | 36.3 | 35.6 | 36.3 |
| Safety indicators | | | | |
| Injury frequency rate per 200,000 person hours ⁽²⁾ | 2.1 | 2.0 | 1.9 | 2.1 |
| Accident rate per million train miles ⁽²⁾ | 3.6 | 2.0 | 2.7 | 2.4 |

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

(2) Based on Federal Railroad Administration (FRA) reporting criteria. For 2006, the Injury frequency rate per 200,000 person hours and the Accident rate per million train miles, prepared on a proforma basis to include the acquisitions of Mackenzie Northern Railway and Savage Alberta Railway, Inc., as of January 1, 2006, would have been 2.1 and 2.3, respectively, for the three months ended December 31, 2006, and 2.1 and 2.5, respectively, for the year ended December 31, 2006.

Certain of the 2006 comparative figures have been reclassified in order to be consistent with the 2007 presentation, as discussed herein. 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 December 31 | | | Year ended December 31 | | |
|---|--------------------------------|--------|-------------------------|------------------------|---------|-------------------------|
| | 2007 | 2006 | Variance Fav (Unfav) | 2007 | 2006 | Variance Fav (Unfav) |
| | <i>(Unaudited)</i> | | | | | |
| Revenues (millions of dollars) | | | | | | |
| Petroleum and chemicals | 306 | 300 | 2% | 1,226 | 1,171 | 5% |
| Metals and minerals | 195 | 192 | 2% | 826 | 835 | (1%) |
| Forest products | 336 | 414 | (19%) | 1,552 | 1,747 | (11%) |
| Coal | 98 | 93 | 5% | 385 | 370 | 4% |
| Grain and fertilizers | 350 | 351 | - | 1,311 | 1,258 | 4% |
| Intermodal | 362 | 353 | 3% | 1,382 | 1,394 | (1%) |
| Automotive | 116 | 121 | (4%) | 504 | 479 | 5% |
| Other revenues | 178 | 176 | 1% | 711 | 675 | 5% |
| | 1,941 | 2,000 | (3%) | 7,897 | 7,929 | - |
| Revenue ton miles (millions) | | | | | | |
| Petroleum and chemicals | 8,473 | 7,930 | 7% | 32,761 | 31,868 | 3% |
| Metals and minerals | 4,305 | 4,026 | 7% | 16,719 | 17,467 | (4%) |
| Forest products | 9,156 | 10,049 | (9%) | 39,808 | 42,488 | (6%) |
| Coal | 3,432 | 3,209 | 7% | 13,776 | 13,727 | - |
| Grain and fertilizers | 12,550 | 11,791 | 6% | 45,359 | 44,096 | 3% |
| Intermodal | 8,493 | 8,237 | 3% | 32,607 | 32,922 | (1%) |
| Automotive | 742 | 724 | 2% | 3,118 | 3,042 | 2% |
| | 47,151 | 45,966 | 3% | 184,148 | 185,610 | (1%) |
| Rail freight revenue / RTM (cents) | | | | | | |
| Rail freight revenue per RTM | 3.74 | 3.97 | (6%) | 3.90 | 3.91 | - |
| Commodity groups: | | | | | | |
| Petroleum and chemicals | 3.61 | 3.78 | (4%) | 3.74 | 3.67 | 2% |
| Metals and minerals | 4.53 | 4.77 | (5%) | 4.94 | 4.78 | 3% |
| Forest products | 3.67 | 4.12 | (11%) | 3.90 | 4.11 | (5%) |
| Coal | 2.86 | 2.90 | (1%) | 2.79 | 2.70 | 3% |
| Grain and fertilizers | 2.79 | 2.98 | (6%) | 2.89 | 2.85 | 1% |
| Intermodal | 4.26 | 4.29 | (1%) | 4.24 | 4.23 | - |
| Automotive | 15.63 | 16.71 | (6%) | 16.16 | 15.75 | 3% |
| Carloads (thousands) | | | | | | |
| Petroleum and chemicals | 151 | 145 | 4% | 599 | 590 | 2% |
| Metals and minerals | 261 | 203 | 29% | 1,010 | 981 | 3% |
| Forest products | 134 | 154 | (13%) | 584 | 667 | (12%) |
| Coal | 86 | 94 | (9%) | 361 | 411 | (12%) |
| Grain and fertilizers | 162 | 157 | 3% | 601 | 594 | 1% |
| Intermodal | 346 | 332 | 4% | 1,324 | 1,326 | - |
| Automotive | 65 | 61 | 7% | 265 | 255 | 4% |
| | 1,205 | 1,146 | 5% | 4,744 | 4,824 | (2%) |
| Rail freight revenue / carload (dollars) | | | | | | |
| Rail freight revenue per carload | 1,463 | 1,592 | (8%) | 1,515 | 1,504 | 1% |
| Commodity groups: | | | | | | |
| Petroleum and chemicals | 2,026 | 2,069 | (2%) | 2,047 | 1,985 | 3% |
| Metals and minerals | 747 | 946 | (21%) | 818 | 851 | (4%) |
| Forest products | 2,507 | 2,688 | (7%) | 2,658 | 2,619 | 1% |
| Coal | 1,140 | 989 | 15% | 1,066 | 900 | 18% |
| Grain and fertilizers | 2,160 | 2,236 | (3%) | 2,181 | 2,118 | 3% |
| Intermodal | 1,046 | 1,063 | (2%) | 1,044 | 1,051 | (1%) |
| Automotive | 1,785 | 1,984 | (10%) | 1,902 | 1,878 | 1% |

Certain of the 2006 comparative figures have been reclassified in order to be consistent with the 2007 presentation, as discussed herein. 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 and year ended December 31, 2007, the Company reported adjusted net income of \$444 million, or \$0.90 per diluted share, and \$1,725 million, or \$3.40 per diluted share, respectively. These adjusted figures exclude the impact of a net deferred income tax recovery of \$284 million (\$0.57 per diluted share) in the fourth quarter and \$328 million (\$0.64 per diluted share) for the year ended December 31, 2007 that resulted mainly from the enactment of corporate income tax rate changes in Canada. Also excluded from adjusted net income for both the three- and twelve-month periods were the gains on sale of the Central Station Complex of \$92 million or \$64 million after-tax (\$0.13 per diluted share) and the Company's investment in English Welsh and Scottish Railway of \$61 million or \$41 million after-tax (\$0.08 per diluted share).

During the three months and year ended December 31, 2006, the Company reported adjusted net income of \$472 million, or \$0.90 per diluted share and \$1,810 million, or \$3.40 per diluted share, respectively. These adjusted figures exclude the impact of a deferred income tax recovery of \$27 million (\$0.05 per diluted share) in the fourth quarter and \$277 million (\$0.51 per diluted share) for the year ended December 31, 2006 that resulted primarily from the enactment of lower corporate income tax rates in Canada and the resolution of matters pertaining to prior years' income taxes.

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 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 2007 Annual Consolidated Financial Statements, Notes thereto and Management's Discussion and Analysis (MD&A). The following tables provide a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2007 and 2006, to the adjusted performance measures presented herein.

| <i>In millions, except per share data</i> | Three months ended December 31, 2007 | | | Year ended December 31, 2007 | | |
|---|---|------------------|----------------|---------------------------------|------------------|-----------------|
| | Reported | Adjustments | Adjusted | Reported | Adjustments | Adjusted |
| Revenues | \$ 1,941 | \$ - | \$ 1,941 | \$ 7,897 | \$ - | \$ 7,897 |
| Operating expenses | 1,205 | - | 1,205 | 5,021 | - | 5,021 |
| Operating income | 736 | - | 736 | 2,876 | - | 2,876 |
| Interest expense | (85) | - | (85) | (336) | - | (336) |
| Other income | 159 | (153) | 6 | 166 | (153) | 13 |
| Income before income taxes | 810 | (153) | 657 | 2,706 | (153) | 2,553 |
| Income tax recovery (expense) | 23 | (236) | (213) | (548) | (280) | (828) |
| Net income | \$ 833 | \$ (389) | \$ 444 | \$ 2,158 | \$ (433) | \$ 1,725 |
| Basic earnings per share | \$ 1.70 | \$ (0.79) | \$ 0.91 | \$ 4.31 | \$ (0.87) | \$ 3.44 |
| Diluted earnings per share | \$ 1.68 | \$ (0.78) | \$ 0.90 | \$ 4.25 | \$ (0.85) | \$ 3.40 |

| <i>In millions, except per share data</i> | Three months ended December 31, 2006 | | | Year ended December 31, 2006 | | |
|---|---|------------------|----------------|---------------------------------|------------------|-----------------|
| | Reported | Adjustments | Adjusted | Reported | Adjustments | Adjusted |
| Revenues | \$ 2,000 | \$ - | \$ 2,000 | \$ 7,929 | \$ - | \$ 7,929 |
| Operating expenses | 1,244 | - | 1,244 | 4,899 | - | 4,899 |
| Operating income | 756 | - | 756 | 3,030 | - | 3,030 |
| Interest expense | (80) | - | (80) | (312) | - | (312) |
| Other income | 27 | - | 27 | 11 | - | 11 |
| Income before income taxes | 703 | - | 703 | 2,729 | - | 2,729 |
| Income tax expense | (204) | (27) | (231) | (642) | (277) | (919) |
| Net income | \$ 499 | \$ (27) | \$ 472 | \$ 2,087 | \$ (277) | \$ 1,810 |
| Basic earnings per share | \$ 0.97 | \$ (0.05) | \$ 0.92 | \$ 3.97 | \$ (0.53) | \$ 3.44 |
| Diluted earnings per share | \$ 0.95 | \$ (0.05) | \$ 0.90 | \$ 3.91 | \$ (0.51) | \$ 3.40 |

CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES (continued) unaudited

Free cash flow

The Company generated \$635 million and \$828 million of free cash flow for the three months and year ended December 31, 2007, compared to \$212 million and \$1,343 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 and changes in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities and the payment of dividends, calculated as follows:

| <i>In millions</i> | Three months ended December 31 | | Year ended December 31 | |
|--|-----------------------------------|----------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash provided from operating activities | \$ 942 | \$ 1,063 | \$ 2,417 | \$ 2,951 |
| Cash used by investing activities | (24) | (484) | (895) | (1,349) |
| Cash provided before financing activities | 918 | 579 | 1,522 | 1,602 |
| <i>Adjustments:</i> | | | | |
| Change in accounts receivable securitization | (176) | (293) | (228) | 82 |
| Dividends paid | (102) | (83) | (418) | (340) |
| Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents | (5) | 9 | (48) | (1) |
| <i>Free cash flow</i> | \$ 635 | \$ 212 | \$ 828 | \$ 1,343 |