



North America's Railroad

NEWS RELEASE

CN reports Q4-2007 net income of C\$833 million, or C\$1.68 per diluted share, including C\$0.78 per share in benefits from favorable tax adjustments and major asset sales

CN sees 2008 opportunities despite tough economic environment

MONTREAL, Jan. 22, 2008 — CN (TSX:CNR)(NYSE:CNI) today reported its financial and operating results for the quarter and year ended Dec. 31, 2007.

Fourth-quarter 2007 highlights

- Diluted earnings per share were C\$1.68, including a C\$0.57 per share benefit from a deferred income tax recovery, C\$0.13 per share from the sale of CN's Central Station Complex (CSC) in Montreal, and C\$0.08 per share from the sale of the Company's investment in English Welsh and Scottish Railway (EWS). Excluding these items, CN reported adjusted diluted EPS of C\$0.90, which was flat compared with adjusted diluted EPS for the fourth quarter of 2006. ⁽¹⁾
- Net income was C\$833 million, which included a deferred income tax recovery of C\$284 million, as well as after-tax gains of C\$64 million on the CSC sale and C\$41 million from the EWS investment sale. Excluding these items, adjusted net income was C\$444 million. ⁽¹⁾
- 2006 fourth-quarter net income was C\$499 million, including a deferred income tax recovery of C\$27 million, or five cents per diluted share. Excluding the deferred income tax recovery, fourth-quarter 2006 adjusted net income was C\$472 million (adjusted diluted EPS of C\$0.90). ⁽¹⁾
- Fourth-quarter 2007 revenues declined three per cent to C\$1,941 million, with operating expenses declining three per cent to C\$1,205 million.
- Operating income for the final quarter of 2007 declined three per cent to C\$736 million, while CN's operating ratio was essentially flat at 62.1 per cent.
- The strengthening Canadian dollar relative to the U.S. dollar, which affected the conversion of CN's U.S. dollar-denominated revenues and expenses, resulted in a reduction to fourth-quarter 2007 net income of approximately C\$25 million, or C\$0.05 per diluted share.

E. Hunter Harrison, president and chief executive officer, said: "CN faced strong headwinds in 2007 but we turned in a solid performance for both the quarter and the year. The major challenges were weak housing markets in the U.S., the continuing strength of the Canadian dollar that affected our U.S. dollar-denominated revenues, a strike in the first quarter, and a number of weather-related issues, particularly in western Canada.

“During the final quarter of 2007, four of our commodity groups – intermodal, petroleum and chemicals, metals and minerals, and coal – generated increased revenues. However, tough market conditions reduced forest products revenues by 19 per cent. Operating expenses declined three per cent in the quarter, allowing the Company to deliver an operating ratio of 62.1 per cent.

“We are very pleased with the start in the fourth quarter of our new Prince Rupert intermodal service. Transit times have been consistently on target. It’s this kind of performance that underscores the value of the product offering and commitment of all the parties involved – CN, the Port of Prince Rupert and Maher Terminals – to deliver a highly competitive service.”

Harrison said 2008 will be challenging in some areas, but the year ahead also offers the Company opportunities for growth.

“We’re cautious about the state of the North American economy, continued weakness in the U.S. housing market, and the strength of the Canadian dollar vis-a-vis the U.S. dollar. At the same time, we see opportunities for new traffic, the strongest being intermodal as a result of the new Prince Rupert gateway for containerized goods moving between Asia and North America. We also see a number of opportunities in bulk and industrial products, including those related to the continuing oil boom in western Canada. Our recent acquisitions have strengthened our freight franchise in that region.”

2008 financial outlook

For 2008, CN expects the Canadian-U.S. dollar exchange rate to be in the range of C\$0.95-C\$1.00, the price for crude oil (West Texas Intermediate) to be around US\$90 per barrel, and North American economic growth to be approximately 1.7 per cent. With this outlook, CN expects to take advantage of a number of opportunities and is targeting to deliver revenue growth in the range of six to eight per cent this year. With continued productivity improvements, the Company expects 2008 diluted earnings per share growth to be in the range of mid-to-high single digit, compared with adjusted diluted EPS of C\$3.40 in 2007, and 2008 free cash flow to be in the order of C\$750 million. ⁽¹⁾

In 2008, CN also plans to invest approximately C\$1.5 billion in capital programs, of which more than C\$1 billion will be targeted on track infrastructure to maintain a safe railway and improve the productivity and fluidity of the network.

Please see “Forward-Looking Statements” below for additional information.

Fourth-quarter 2007 results

Net income for the fourth quarter of 2007 was C\$833 million, including a deferred income tax recovery of C\$284 million (C\$0.57 per diluted share) resulting from the enactment of corporate income tax rate changes in Canada, and the after-tax gains on the sale of the CSC of C\$64 million (C\$0.13 per diluted share) and the Company’s investment in EWS of C\$41 million (C\$0.08 per diluted share). Excluding the three items, CN reported adjusted diluted EPS of C\$0.90. ⁽¹⁾

Fourth-quarter 2006 net income was C\$499 million (C\$0.95 per diluted share), including a deferred income tax recovery of C\$27 million (C\$0.05 per diluted share) attributable to the resolution of matters relating to prior years’ income taxes. Excluding the deferred income tax recovery, fourth-quarter 2006 adjusted net income was C\$472 million (adjusted diluted EPS of C\$0.90). ⁽¹⁾

Fourth-quarter 2007 revenues declined three per cent to C\$1,941 million. The decrease was mainly due to the translation impact of a stronger Canadian dollar on U.S. dollar-denominated revenues and weakness in the forest products market.

Revenue ton-miles, a measurement of the relative weight and distance of rail freight transported by the Company, increased by three per cent during fourth-quarter 2007 versus the comparable period of 2006. 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 six per cent over the same period in 2006.

Operating expenses for the fourth quarter decreased three per cent to C\$1,205 million, largely as a result of decreased labor and fringe benefits expense and the translation impact of a stronger Canadian dollar on U.S. dollar-denominated expenses. These factors were partially offset by significantly higher fuel expense.

The operating ratio, defined as operating expenses as a percentage of revenues, was 62.1 per cent during the quarter, compared with 62.2 per cent for the fourth quarter of 2006, a 0.1-point decrease.

Full-year 2007 results

Net income for 2007 was C\$2,158 million, with diluted earnings per share of C\$4.25. The 2007 results included a deferred income tax recovery of C\$328 million (C\$0.64 per diluted share) resulting mainly from the enactment of corporate income tax rate changes in Canada, as well as the gains on the sale of the CSC of C\$64 million (C\$0.13 per diluted share) and the Company's investment in EWS of C\$41 million (C\$0.08 per diluted share). Year-earlier net income was C\$2,087 million (C\$3.91 per diluted share). Included in the 2006 figures was a deferred income tax recovery of C\$277 million (C\$0.51 per diluted share), resulting from the enactment of lower corporate income tax rates in Canada and the resolution of matters pertaining to prior years' income taxes.

Excluding benefits from favorable tax adjustments and major asset sales, adjusted net income for 2007 was C\$1,725 million, or C\$3.40 per diluted share, compared with adjusted 2006 net income of C\$1,810 million, or C\$3.40 per diluted share. ⁽¹⁾

Revenues for 2007 totaled C\$7,897 million, compared with C\$7,929 million for 2006. The decline in revenues was mainly a result of the translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues, weakness in specific markets, particularly forest products, the United Transportation Union (UTU) strike, and adverse weather conditions in the first half of 2007. Largely offsetting these factors were the impact of net freight rate increases, which included lower fuel surcharge revenues as a result of applicable fuel prices, and an overall improvement in traffic mix.

Revenue ton-miles for 2007 declined one per cent from the comparable period of 2006, while rail freight revenue per ton-mile was essentially flat.

Operating expenses increased two per cent to C\$5,021 million, mainly due to increased fuel costs and equipment rents, which were partly offset by the translation impact of a stronger Canadian dollar and decreased labor and fringe benefits expense.

Operating income declined five per cent to C\$2,876 million. The operating ratio was 63.6 per cent in 2007, compared with 61.8 per cent in 2006, a 1.8-point increase.

In addition to the weather conditions and operational challenges in the first half of 2007, CN's results in 2007 included the impact of the first-quarter 2007 strike by 2,800 UTU members, for which the Company estimated the negative impact on first-quarter 2007 operating income and net income to be approximately C\$50 million and C\$35 million, respectively, (C\$0.07 per diluted share).

The strengthening Canadian dollar relative to the U.S. dollar, which affected the conversion of CN's U.S. dollar-denominated revenues and expenses, resulted in a reduction to net income of approximately C\$35 million, or 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).

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

Forward-Looking Statements

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. In addition to the other assumptions contained in this release, the Company assumes that, although there is an increasing risk of recession in the U.S. economy, growth in North America and globally will continue to slow down in 2008, but that a recession will not take place. The Company cautions that this as well as its other assumptions may not materialize. The Company's results could differ materially from those expressed or implied in such forward-looking statements. Important factors that could cause such differences include, but are not limited to, industry competition, legislative and/or regulatory developments, compliance with environmental laws and regulations, 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), as well as its 2007 unaudited interim consolidated financial statements and MD&A, for a summary of major risks.

CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

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.

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