

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2008.

KPMG LLP, an independent registered public accounting firm, has issued an unqualified audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 and has also expressed an unqualified opinion on the Company's 2008 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 5, 2009.

(s) E. Hunter Harrison
President and Chief Executive Officer

February 5, 2009

(s) Claude Mongeau
Executive Vice-President and Chief Financial Officer

February 5, 2009

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of the Canadian National Railway Company:

We have audited the accompanying consolidated balance sheets of the Canadian National Railway Company (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with generally accepted accounting principles in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 5, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(s) *KPMG LLP**

Chartered Accountants

Montreal, Canada

February 5, 2009

* CA Auditor permit no. 23443

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of the Canadian National Railway Company:

We have audited the Canadian National Railway Company's (the "Company") internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control -Integrated Framework issued by the COSO.

We also have audited, in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 5, 2009 expressed an unqualified opinion on those consolidated financial statements.

(s) *KPMG LLP**

Chartered Accountants

Montreal, Canada
February 5, 2009

*CA Auditor permit no. 23443

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Income

U.S. GAAP

<i>In millions, except per share data</i>	<i>Year ended December 31,</i>		
	2008	2007	2006
Revenues	\$ 8,482	\$ 7,897	\$ 7,929
Operating expenses			
Labor and fringe benefits	1,674	1,701	1,823
Purchased services and material	1,137	1,045	1,027
Fuel	1,403	1,026	892
Depreciation and amortization	725	677	650
Equipment rents	262	247	198
Casualty and other	387	325	309
Total operating expenses	5,588	5,021	4,899
<i>Operating income</i>	2,894	2,876	3,030
Interest expense	(375)	(336)	(312)
Other income (Note 13)	26	166	11
<i>Income before income taxes</i>	2,545	2,706	2,729
Income tax expense (Note 14)	(650)	(548)	(642)
Net income	\$ 1,895	\$ 2,158	\$ 2,087
<i>Earnings per share (Note 16)</i>			
Basic	\$ 3.99	\$ 4.31	\$ 3.97
Diluted	\$ 3.95	\$ 4.25	\$ 3.91
<i>Weighted-average number of shares</i>			
Basic	474.7	501.2	525.9
Diluted	480.0	508.0	534.3

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

U.S. GAAP

<i>In millions</i>	<i>Year ended December 31,</i>	2008	2007	2006
Net income		\$ 1,895	\$ 2,158	\$ 2,087
Other comprehensive income (loss) (Note 19):				
Unrealized foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations		1,259	(1,004)	32
Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries		(1,266)	788	(33)
Pension and other postretirement benefit plans (Note 12):				
Net actuarial gain (loss) arising during the period		(452)	391	-
Prior service cost arising during the period		(3)	(12)	-
Amortization of net actuarial loss (gain) included in net periodic benefit cost		(2)	49	-
Amortization of prior service cost included in net periodic benefit cost		21	21	-
Minimum pension liability adjustment		-	-	1
Derivative instruments (Note 18):		-	(1)	(57)
Other comprehensive income (loss) before income taxes		(443)	232	(57)
Income tax recovery (expense) on Other comprehensive income (loss)		319	(219)	(179)
Other comprehensive income (loss)		(124)	13	(236)
Comprehensive income		\$ 1,771	\$ 2,171	\$ 1,851

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

U.S. GAAP

<i>In millions</i>	<i>December 31,</i>	2008	2007
Assets			
Current assets			
Cash and cash equivalents	\$	413	\$ 310
Accounts receivable (Note 4)		913	370
Material and supplies		200	162
Deferred income taxes (Note 14)		98	68
Other		132	138
		1,756	1,048
Properties (Note 5)		23,203	20,413
Intangible and other assets (Note 6)		1,761	1,999
Total assets		\$ 26,720	\$ 23,460
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other (Note 7)	\$	1,386	\$ 1,336
Current portion of long-term debt (Note 9)		506	254
		1,892	1,590
Deferred income taxes (Note 14)		5,511	4,908
Other liabilities and deferred credits (Note 8)		1,353	1,422
Long-term debt (Note 9)		7,405	5,363
Shareholders' equity			
Common shares (Note 10)		4,179	4,283
Accumulated other comprehensive loss (Note 19)		(155)	(31)
Retained earnings		6,535	5,925
		10,559	10,177
Total liabilities and shareholders' equity		\$ 26,720	\$ 23,460

On Behalf of the Board:

David G. McLean
DirectorE. Hunter Harrison
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

U.S. GAAP

<i>In millions</i>	Issued and outstanding common shares	Common shares	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
<i>Balances at December 31, 2005</i>	536.8	\$ 4,580	\$ (222)	\$ 4,891	\$ 9,249
Net income	-	-	-	2,087	2,087
Stock options exercised and other (Notes 10, 11)	5.1	133	-	-	133
Share repurchase programs (Note 10)	(29.5)	(254)	-	(1,229)	(1,483)
Other comprehensive loss (Note 19)	-	-	(236)	-	(236)
Adjustment to Accumulated other comprehensive loss (Note 2)	-	-	414	-	414
Dividends (\$0.65 per share)	-	-	-	(340)	(340)
<i>Balances at December 31, 2006</i>	512.4	4,459	(44)	5,409	9,824
Adoption of accounting pronouncements (Note 2)	-	-	-	95	95
Restated balance, beginning of year	512.4	4,459	(44)	5,504	9,919
Net income	-	-	-	2,158	2,158
Stock options exercised and other (Notes 10, 11)	3.0	89	-	-	89
Share repurchase programs (Note 10)	(30.2)	(265)	-	(1,319)	(1,584)
Other comprehensive income (Note 19)	-	-	13	-	13
Dividends (\$0.84 per share)	-	-	-	(418)	(418)
<i>Balances at December 31, 2007</i>	485.2	4,283	(31)	5,925	10,177
Net income	-	-	-	1,895	1,895
Stock options exercised and other (Notes 10, 11)	2.4	68	-	-	68
Share repurchase programs (Note 10)	(19.4)	(172)	-	(849)	(1,021)
Other comprehensive loss (Note 19)	-	-	(124)	-	(124)
Dividends (\$0.92 per share)	-	-	-	(436)	(436)
<i>Balances at December 31, 2008</i>	468.2	\$ 4,179	\$ (155)	\$ 6,535	\$ 10,559

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

U.S. GAAP

<i>In millions</i>	<i>Year ended December 31,</i>		
	2008	2007	2006
Operating activities			
Net income	\$ 1,895	\$ 2,158	\$ 2,087
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	725	678	653
Deferred income taxes (Note 14)	230	(82)	3
Gain on sale of Central Station Complex (Note 5)	-	(92)	-
Gain on sale of investment in English Welsh and Scottish Railway (Note 6)	-	(61)	-
Other changes in:			
Accounts receivable (Note 4)	(432)	229	(17)
Material and supplies	(23)	18	(36)
Accounts payable and other	(127)	(396)	194
Other current assets	37	84	61
Other	(274)	(119)	6
Cash provided from operating activities	2,031	2,417	2,951
Investing activities			
Property additions	(1,424)	(1,387)	(1,298)
Acquisitions, net of cash acquired (Note 3)	(50)	(25)	(84)
Sale of Central Station Complex (Note 5)	-	351	-
Sale of investment in English Welsh and Scottish Railway (Note 6)	-	114	-
Other, net	74	52	33
Cash used by investing activities	(1,400)	(895)	(1,349)
Financing activities			
Issuance of long-term debt	4,433	4,171	3,308
Reduction of long-term debt	(3,589)	(3,589)	(3,089)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized (Note 11)	54	77	120
Repurchase of common shares (Note 10)	(1,021)	(1,584)	(1,483)
Dividends paid	(436)	(418)	(340)
Cash used by financing activities	(559)	(1,343)	(1,484)
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	31	(48)	(1)
Net increase in cash and cash equivalents	103	131	117
Cash and cash equivalents, beginning of year	310	179	62
Cash and cash equivalents, end of year	\$ 413	\$ 310	\$ 179
Supplemental cash flow information			
Net cash receipts from customers and other	\$ 8,012	\$ 8,139	\$ 7,946
Net cash payments for:			
Employee services, suppliers and other expenses	(4,920)	(4,323)	(4,130)
Interest	(396)	(340)	(294)
Workforce reductions (Note 8)	(22)	(31)	(45)
Personal injury and other claims (Note 17)	(91)	(86)	(107)
Pensions (Note 12)	(127)	(75)	(112)
Income taxes (Note 14)	(425)	(867)	(307)
Cash provided from operating activities	\$ 2,031	\$ 2,417	\$ 2,951

See accompanying notes to consolidated financial statements.

Canadian National Railway Company, together with its wholly owned subsidiaries, collectively "CN" or "the Company," is engaged in the rail and related transportation business. CN 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, Alabama, and the key cities of Toronto, Buffalo, Chicago, Detroit, Duluth, Minnesota/Superior, Wisconsin, Green Bay, Wisconsin, Minneapolis/St. Paul, Memphis, St. Louis, and Jackson, Mississippi, with connections to all points in North America. CN's freight revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 – Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to personal injury and other claims, environmental claims, depreciation, pensions and other postretirement benefits, and income taxes, based upon currently available information. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method and all other investments are accounted for using the cost method.

B. Revenues

Freight revenues are recognized using the percentage of completed service method based on the transit time of freight as it moves from origin to destination. Costs associated with movements are recognized as the service is performed. Revenues are presented net of taxes collected from customers and remitted to governmental authorities.

C. Foreign exchange

All of the Company's United States (U.S.) operations are self-contained foreign entities with the U.S. dollar as their functional currency. Accordingly, the U.S. operations' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (loss) (see Note 19).

The Company designates the U.S. dollar-denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Accordingly, unrealized foreign exchange gains and losses, from the dates of designation, on the translation of the U.S. dollar-denominated long-term debt are also included in Other comprehensive income (loss).

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Accounts receivable

Accounts receivable are recorded at cost net of billing adjustments and an allowance for doubtful accounts. The allowance for doubtful accounts is based on expected collectability and considers historical experience as well as known trends or uncertainties related to account collectability. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. Material and supplies

Material and supplies, which consist mainly of rail, ties, and other items for construction and maintenance of property and equipment, as well as diesel fuel, are valued at weighted-average cost.

G. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. Labor, materials and other costs associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's minimum threshold for capitalization. Major overhauls and large refurbishments are also capitalized when they result in an extension to the useful life or increase the functionality of the asset. Included in property additions are the costs of developing computer software for internal use. Maintenance costs are expensed as incurred.

The cost of railroad properties, less net salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. The Company reviews the carrying amounts of properties held and used whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Assets held for sale are measured at the lower of their carrying amount or fair value, less cost to sell. Losses resulting from significant line sales are recognized in income when the asset meets the criteria for classification as held for sale, whereas losses resulting from significant line abandonments are recognized in the statement of income when the asset ceases to be used. Gains are recognized in income when they are realized.

H. Depreciation

The cost of properties, including those under capital leases, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings	2%
Information technology	15%
Other	7%

The Company follows the group method of depreciation for railroad properties and, as such, conducts comprehensive depreciation studies on a periodic basis to assess the reasonableness of the lives of properties based upon current information and historical activities. Changes in estimated useful lives are accounted for prospectively. In 2008, the Company completed a depreciation study of its Canadian properties, plant and equipment, resulting in an increase in depreciation expense of \$20 million for the year ended December 31, 2008 compared to the same period in 2007. In 2007, the Company completed a depreciation study for all of its U.S. assets, for which there was no significant impact on depreciation expense.

I. Intangible assets

Intangible assets relate to customer contracts and relationships assumed through past acquisitions and are being amortized on a straight-line basis over 40 to 50 years.

J. Pensions

Pension costs are determined using actuarial methods. Net periodic benefit cost is charged to income and includes:

- (i) the cost of pension benefits provided in exchange for employees' services rendered during the year,
- (ii) the interest cost of pension obligations,
- (iii) the expected long-term return on pension fund assets,
- (iv) the amortization of prior service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

- (v) the amortization of cumulative net actuarial gains and losses in excess of 10% of, the greater of the beginning of year balances of the projected benefit obligation or market-related value of plan assets, over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

K. Postretirement benefits other than pensions

The Company accrues the cost of postretirement benefits other than pensions using actuarial methods. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits and free rail travel benefits.

The Company amortizes the cumulative net actuarial gains and losses in excess of 10% of the projected benefit obligation at the beginning of the year, over the expected average remaining service life of the employee group covered by the plans.

L. Personal injury and other claims

In Canada, 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.

In the U.S., the Company accrues the expected cost for personal injury, property damage and occupational disease claims, based on actuarial estimates of their ultimate cost.

For all other legal actions in Canada and the U.S., the Company maintains, 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.

M. Environmental expenditures

Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Environmental liabilities are recorded when environmental assessments occur and/or remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

N. Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in the computation of net income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

O. Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its interest rate and foreign currency exposures. Derivative instruments are recorded on the balance sheet at fair value and the changes in fair value are recorded in earnings or Other comprehensive income (loss) depending on the nature and effectiveness of the hedge transaction. Income and expense related to hedged derivative financial instruments are recorded in the same category as that generated by the underlying asset or liability.

P. Stock-based compensation

The Company follows the fair value based approach for stock option awards based on the grant-date fair value using the Black-Scholes option-pricing model. The Company expenses the fair value of its stock option awards on a straight-line basis, over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter. The Company also follows the fair value based approach for cash settled awards. Compensation cost for cash settled awards is based on the fair value of the awards at period-end and is recognized over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter. See Note 11 – Stock plans, for the assumptions used to determine fair value and for other required disclosures.

Q. Recent accounting pronouncements

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (IFRS) for the years beginning on or after January 1, 2011. However, National Instrument 52-107 allows foreign issuers, as defined by the Securities and Exchange Commission (SEC), such as CN, to file with Canadian securities regulators financial statements that are prepared in accordance with U.S. GAAP. As such, the Company has decided not to report under IFRS by 2011 and to continue reporting under U.S. GAAP. In August 2008, the SEC issued a roadmap for the potential convergence to IFRS for U.S. issuers and foreign issuers. The proposal stipulates that the SEC will decide in 2011 whether to move forward with the convergence to IFRS with the transition beginning in 2014. Should the SEC adopt such a proposal, the Company will convert its reporting to IFRS at such time.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), "Business Combinations," which requires that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, and that goodwill acquired from a bargain purchase (previously referred to as negative goodwill) be recognized in the Consolidated Statement of Income in the period the acquisition occurs. The standard also prescribes disclosure requirements to enable users of financial statements to evaluate and understand the nature and financial effects of the business combination. The standard is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply SFAS No. 141(R) on a prospective basis, beginning with its acquisition of Elgin, Joliet and Eastern Railway Company (EJ&E) in 2009 (see Note 3). As at December 31, 2008, the Company had approximately \$40 million of transaction costs recorded in Other current assets related to the acquisition of EJ&E. Pursuant to the requirements of this standard, such costs will be expensed at the time of acquisition.

2 – Accounting changes**2007***Income taxes*

On January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes," which prescribes the criteria for 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. Disclosures prescribed by FIN No. 48 are presented in Note 14 – Income taxes.

Pensions and other postretirement benefits

On January 1, 2007, pursuant to 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 allowed for the extrapolation of net periodic benefit cost based on the September 30, 2006 measurement date to the fiscal year-end date of December 31, 2007. As a result, the Company recorded a reduction of \$3 million to Retained earnings at January 1, 2007,

which represented the net periodic benefit cost pursuant to the actuarial valuation attributable to the period between the early measurement date of September 30, 2006 and January 1, 2007 (the date of adoption).

2006

Stock-based compensation

On January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment," which required the expensing of all options issued, modified or settled based on the grant date fair value over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter. Compensation cost for cash settled awards is based on the fair value of the awards at period-end and is recognized over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter.

The Company adopted SFAS No. 123(R) using the modified prospective approach, which required application of the standard to all awards granted, modified, repurchased or cancelled on or after January 1, 2006, and to all awards for which the requisite service had not been rendered as at such date. Since January 1, 2003, the Company had been following the fair value based approach prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," for stock option awards granted, modified or settled on or after such date, while cash settled awards were measured at their intrinsic value at each reporting period until December 31, 2005. As such, the application of SFAS No. 123(R) on January 1, 2006 to all awards granted prior to its adoption did not have a significant impact on the financial statements. In accordance with the modified prospective approach, prior period financial statements were not restated to reflect the impact of SFAS No. 123(R).

For the year ended December 31, 2006, the application of SFAS No. 123(R) had the effect of increasing stock-based compensation expense and decreasing net income by \$16 million and \$12 million, respectively, or \$0.02 per basic and diluted earnings per share. Disclosures prescribed by SFAS No. 123(R) for the Company's various stock-based compensation plans are presented in Note 11 – Stock plans.

Pension and other postretirement plans

On December 31, 2006, the Company adopted 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)," which required the Company to recognize the funded status of its various benefit plans in its Consolidated Balance Sheet. Pursuant to SFAS No. 158, the Company recognizes changes in the funded status in the year in which the changes occur, through Other comprehensive income (loss). The actuarial gains/losses and prior service costs/credits that arise during the period will be recognized as a component of Other comprehensive income (loss). These amounts recognized in Accumulated other comprehensive loss will be adjusted as they are subsequently recognized as components of net periodic benefit cost. Prior to December 31, 2006, actuarial gains/losses and prior service costs/credits were deferred in their recognition, and amortized into net periodic benefit cost over the expected average remaining service life of the employee group covered by the plans. The adoption of SFAS No. 158 had no impact on years prior to 2006 as retrospective application was not allowed. This Standard has no effect on the computation of net periodic benefit cost for pensions and other postretirement benefits. See Note 12 – Pensions and other postretirement benefits for the prospective application of SFAS No. 158 to the Company's benefit plans.

3 – Acquisitions

Acquisition of Elgin, Joliet and Eastern Railway Company (EJ&E) – Subsequent event

In September 2007, the Company and U.S. Steel Corporation (U.S. Steel), the indirect owner of the EJ&E, announced an agreement under which the Company would acquire the principal lines of the EJ&E for a purchase price of approximately U.S.\$300 million. Under the terms of the agreement, the Company would 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 Company has received all necessary regulatory approvals, including the U.S. Surface Transportation Board (STB) ruling rendered on December 24, 2008. On January 31, 2009, the Company completed its acquisition of the EJ&E for a purchase price of U.S.\$300 million, paid with cash on hand.

Over the next few years, the Company has committed to spend approximately U.S.\$100 million for infrastructure improvements and over U.S.\$60 million under a series of mitigation agreements with individual communities, as well as under a comprehensive voluntary mitigation program that addresses municipalities' concerns raised during the regulatory approval process. Expenditures for additional STB-imposed mitigation are being currently evaluated by the Company.

The Company accounted for the acquisition using the purchase method of accounting pursuant to SFAS No. 141(R), "Business Combinations," which became effective for acquisitions closing on or after January 1, 2009 (see Note 1 (Q) Recent accounting pronouncements).

2008

The Company acquired the three principal railway subsidiaries of the Quebec Railway Corp. (QRC) and a QRC rail-freight ferry operation for a total acquisition cost of \$50 million, paid with cash on hand. The acquisition includes:

- (i) Chemin de fer de la Matapedia et du Golfe, a 221-mile short-line railway,
- (ii) New Brunswick East Coast Railway, a 196-mile short-line railway,
- (iii) Ottawa Central Railway, a 123-mile short-line railway, and
- (iv) Compagnie de gestion de Matane Inc., a rail ferry which provides shuttle boat-rail freight service.

2007

The Company acquired the rail assets of Athabasca Northern Railway (ANY) for \$25 million, with a planned investment of \$135 million in rail line upgrades over a three-year period.

2006

The Company acquired the following three entities for a total acquisition cost of \$84 million, paid with cash on hand:

- (i) Alberta short-line railways, composed of the 600-mile Mackenzie Northern Railway, the 118-mile Lakeland & Waterways Railway and the 21-mile Central Western Railway,
- (ii) Savage Alberta Railway, Inc., a 345-mile short-line railway, and
- (iii) the remaining 51% of SLX Canada Inc., a company engaged in equipment leasing in which the Company previously had a 49% interest that had been consolidated.

All acquisitions were accounted for using the purchase method of accounting. As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of the acquired entities from the dates of acquisition.

4 – Accounts receivable

<i>In millions</i>	<i>December 31,</i>	2008	2007
Freight	\$	673	\$ 146
Non-freight		266	251
		939	397
Allowance for doubtful accounts		(26)	(27)
	\$	913	\$ 370

The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest for maximum cash proceeds of \$600 million in a revolving pool of freight receivables to an unrelated trust. The trust is a multi-seller trust and the Company is not the primary beneficiary. The trust was established in Ontario in 1994 by a Canadian bank to acquire receivables and interests in other financial assets from a variety of originators. Funding for the acquisition of these assets is customarily through the issuance of asset-backed commercial paper notes. The notes are secured by, and recourse is limited to, the assets purchased using the proceeds of the notes. At December 31, 2008, the trust held interests in 16 pools of assets and had notes outstanding of \$3.3 billion. Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the required reserve as stipulated in the agreement. The required reserve represents an amount set aside to allow for possible credit losses and is recognized by the Company as a retained interest and recorded in Other current assets in its Consolidated Balance Sheet. The eligible freight receivables as defined in the agreement may not include delinquent or defaulted receivables, or receivables that do not meet certain obligor-specific criteria, including concentrations in excess of prescribed limits with any one customer.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold and receives no fee for such ongoing servicing responsibilities. The average servicing period is approximately one month. In 2008, proceeds from collections reinvested in the securitization program were approximately \$3.3 billion. At December 31, 2008, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is generally limited to the receivables.

The Company accounted for the accounts receivable securitization program as a sale, because control over the transferred accounts receivable was relinquished. Due to the relatively short collection period and the high quality of the receivables sold, the fair value of the undivided interest transferred to the trust approximated the book value thereof. As such, no gain or loss was recorded.

The Company is subject to customary requirements that include reporting requirements as well as compliance to specified ratios, for which failure to perform could result in termination of the program. In addition, the trust is subject to customary credit rating requirements, which if not met, could also result in termination of the program. The Company monitors its requirements and is currently not aware of any trends, events or conditions that could cause such termination.

At December 31, 2008, the Company had sold receivables that resulted in proceeds of \$71 million under this program (\$588 million at December 31, 2007), and recorded retained interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded as at December 31, 2007). The fair value of the retained interest approximated carrying value as a result of the short collection cycle and negligible credit losses.

Other income included \$10 million in 2008, \$24 million in 2007 and \$12 million in 2006, for costs related to the agreement, which fluctuate with changes in prevailing interest rates (see Note 13). These costs include interest, program fees and fees for unused committed availability.

5 – Properties

In millions	December 31, 2008			December 31, 2007		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway ⁽¹⁾	\$ 24,724	\$ 6,643	\$ 18,081	\$ 22,020	\$ 6,433	\$ 15,587
Rolling stock	4,833	1,585	3,248	4,702	1,606	3,096
Buildings	1,253	541	712	1,105	498	607
Information technology	739	187	552	667	131	536
Other	957	347	610	829	242	587
	\$ 32,506	\$ 9,303	\$ 23,203	\$ 29,323	\$ 8,910	\$ 20,413

Capital leases included in properties

Track and roadway ⁽¹⁾	\$ 418	\$ 2	\$ 416	\$ 418	\$ 2	\$ 416
Rolling stock	1,335	287	1,048	1,287	245	1,042
Buildings	109	7	102	109	4	105
Information technology	3	-	3	1	-	1
Other	122	30	92	121	27	94
	\$ 1,987	\$ 326	\$ 1,661	\$ 1,936	\$ 278	\$ 1,658

(1) Includes the cost of land of \$1,827 million and \$1,530 million as at December 31, 2008 and 2007, respectively, of which \$108 million was for right-of-way access and was recorded as a capital lease in both years. Following a review in 2008 of its asset classifications, the Company decreased the amounts of capital leases included in properties and has presented them as owned.

Sale of Central Station Complex

In November 2007, the Company finalized an agreement with Homburg Invest Inc., to sell its Central Station Complex in Montreal for proceeds of \$355 million before transaction costs. Under the agreement, the Company entered into long-term arrangements to lease back its corporate headquarters building and the Central Station railway passenger facilities. The transaction resulted in a gain on disposition of \$222 million, including amounts related to the corporate headquarters building and the Central Station railway passenger facilities, which are being deferred and amortized over their respective lease terms. A gain of \$92 million (\$64 million after-tax) was recognized immediately in Other income (see Note 13).

6 – Intangible and other assets

In millions	December 31,	
	2008	2007
Pension asset (Note 12)	\$ 1,522	\$ 1,768
Investments (A)	24	24
Other receivables	83	106
Intangible assets (B)	65	54
Other	67	47
	\$ 1,761	\$ 1,999

A. Investments

As at December 31, 2008, the Company had \$20 million (\$17 million at December 31, 2007) of investments accounted for under the equity method and \$4 million (\$7 million at December 31, 2007) of investments accounted for under the cost method.

In November 2007, Germany's state-owned railway, Deutsche Bahn AG, acquired all of the shares of English Welsh and Scottish Railway (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 had a 32% ownership interest. The Company accounted for its investment

in EWS using the equity method. The Company's share of the cash proceeds was \$114 million, resulting in a gain on disposition of the investment of \$61 million (\$41 million after-tax) which was recorded in Other income (see Note 13). An additional £18 million (Cdn\$36 million) was placed in escrow at the time of sale, and will be recognized when defined contingencies are resolved. At December 31, 2008, £12 million (Cdn\$22 million) remained in escrow.

B. Intangible assets

Intangible assets relate to customer contracts and relationships assumed through past acquisitions.

7 – Accounts payable and other

<i>In millions</i>	<i>December 31,</i>	2008	<i>2007</i>
Trade payables	\$	413	\$ 457
Payroll-related accruals		237	234
Accrued charges		232	146
Accrued interest		123	118
Personal injury and other claims provision		118	102
Income and other taxes		75	123
Environmental provisions		30	28
Other postretirement benefits liability		19	18
Workforce reduction provisions		17	19
Other		122	91
	\$	1,386	\$ 1,336

8 – Other liabilities and deferred credits

<i>In millions</i>	<i>December 31,</i>	2008	<i>2007</i>
Personal injury and other claims provisions, net of current portion	\$	336	\$ 344
Other postretirement benefits liability, net of current portion (Note 12)		241	248
Pension liability (Note 12)		237	187
Environmental provisions, net of current portion		95	83
Workforce reduction provisions, net of current portion (A)		39	53
Deferred credits and other		405	507
	\$	1,353	\$ 1,422

A. Workforce reduction provisions

The workforce reduction provisions, which relate to job reductions of prior years, including job reductions from the integration of acquired companies, are mainly comprised of payments related to severance, early retirement incentives and bridging to early retirement, the majority of which will be disbursed within the next four years. In 2008, net charges and adjustments increased the provisions by \$6 million (\$6 million for the year ended December 31, 2007). Payments have reduced the provisions by \$22 million for the year ended December 31, 2008 (\$31 million for the year ended December 31, 2007). As at December 31, 2008, the aggregate provisions, including the current portion, amounted to \$56 million (\$72 million as at December 31, 2007).

9 – Long-term debt

<i>In millions</i>	Maturity	U.S. dollar- denominated amount	<i>December 31,</i>	
			2008	2007
<i>Debentures and notes: (A)</i>				
Canadian National series:				
4.25%	5-year notes (B)	Aug. 1, 2009	\$ 300	\$ 365
6.38%	10-year notes (B)	Oct. 15, 2011	400	487
4.40%	10-year notes (B)	Mar. 15, 2013	400	487
4.95%	6-year notes (B)	Jan. 15, 2014	325	396
5.80%	10-year notes (B)	June 1, 2016	250	305
5.85%	10-year notes (B)	Nov. 15, 2017	250	305
5.55%	10-year notes (B)	May 15, 2018	325	396
6.80%	20-year notes (B)	July 15, 2018	200	244
7.63%	30-year debentures	May 15, 2023	150	183
6.90%	30-year notes (B)	July 15, 2028	475	578
7.38%	30-year debentures (B)	Oct. 15, 2031	200	244
6.25%	30-year notes (B)	Aug. 1, 2034	500	609
6.20%	30-year notes (B)	June 1, 2036	450	548
6.71%	Puttable Reset Securities PURS SM (B)	July 15, 2036	250	305
6.38%	30-year debentures (B)	Nov. 15, 2037	300	365
Illinois Central series:				
6.63%	10-year notes	June 9, 2008	20	-
5.00%	99-year income debentures	Dec. 1, 2056	7	9
7.70%	100-year debentures	Sept. 15, 2096	125	152
Wisconsin Central series:				
6.63%	10-year notes	April 15, 2008	150	-
			5,978	4,390
BC Rail series:				
	Non-interest bearing 90-year subordinated notes (C)	July 14, 2094	-	842
<i>Total debentures and notes</i>			6,820	5,232
<i>Other:</i>				
	Commercial paper (D) (E)		626	122
	Capital lease obligations and other (F)		1,320	1,114
<i>Total other</i>			1,946	1,236
			8,766	6,468
<i>Less:</i>				
	Net unamortized discount		855	851
<i>Total debt</i>			7,911	5,617
<i>Less:</i>				
	Current portion of long-term debt		506	254
			\$ 7,405	\$ 5,363

- A. The Company's debentures, notes and revolving credit facility are unsecured.
- B. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.
- C. The Company records these notes as a discounted debt of \$7 million, using an imputed interest rate of 5.75%. The discount of \$835 million is included in the net unamortized discount.
- D. The Company has a U.S.\$1 billion revolving credit facility expiring in October 2011. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at December 31, 2008, the Company had no outstanding borrowings under its revolving credit facility (nil as at December 31, 2007) and had letters of credit drawn of \$181 million (\$57 million as at December 31, 2007).
- E. The Company has a commercial paper program, which is backed by a portion of its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the U.S. dollar equivalent. Commercial paper debt is due within one year but is classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowings through subsequent issuances of commercial paper or drawing down on the long-term revolving credit facility. As at December 31, 2008, the Company had total borrowings of \$626 million, of which \$256 million was denominated in Canadian dollars and \$370 million was denominated in U.S. dollars (U.S.\$303 million). The weighted-average interest rate on these borrowings was 2.42%. As at December 31, 2007, the Company had total borrowings of \$122 million, of which \$114 million was denominated in Canadian dollars and \$8 million was denominated in U.S. dollars (U.S.\$8 million). The weighted-average interest rate on these borrowings was 5.01%.
- F. During 2008, the Company recorded \$117 million in assets acquired through equipment leases (\$301 million in 2007, of which \$211 million related to assets acquired through equipment leases and \$90 million to a leaseback of the Central Station Complex as described in Note 5), for which \$121 million was recorded in debt.
- Interest rates for capital lease obligations range from approximately 2.1% to 7.9% with maturity dates in the years 2009 through 2037. The imputed interest on these leases amounted to \$525 million as at December 31, 2008 and \$515 million as at December 31, 2007.
- The capital lease obligations are secured by properties with a net carrying amount of \$1,245 million as at December 31, 2008 and \$1,241 million as at December 31, 2007.
- G. Long-term debt maturities, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2008, for the next five years and thereafter, are as follows:

In millions

2009 ⁽¹⁾	\$	506
2010		95
2011		1,248
2012		39
2013		581
2014 and thereafter		5,442

(1) Includes \$139 million of capital lease obligations.

- H. The aggregate amount of debt payable in U.S. currency as at December 31, 2008 was U.S.\$6,069 million (Cdn\$7,392 million) and U.S.\$5,280 million (Cdn\$5,234 million) as at December 31, 2007.

I. The Company has U.S.\$1.85 billion available under its currently effective shelf prospectus and registration statement, expiring in January 2010, providing for the issuance of debt securities in one or more offerings.

10 – Capital stock

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value, issuable in series
- Unlimited number of Class B Preferred Shares, without par value, issuable in series

B. Issued and outstanding common shares

During 2008, the Company issued 2.4 million shares (3.0 million shares in 2007 and 5.1 million shares in 2006) related to stock options exercised. The total number of common shares issued and outstanding was 468.2 million as at December 31, 2008.

C. Share repurchase programs

On July 21, 2008, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 25.0 million common shares between July 28, 2008 and July 20, 2009 pursuant to a normal course issuer bid, at prevailing market prices or such other prices as may be permitted by the Toronto Stock Exchange.

As at December 31, 2008, under this current share repurchase program, the Company repurchased 6.1 million common shares for \$331 million, at a weighted-average price of \$54.42 per share.

In June 2008, the Company ended its 33.0 million share repurchase program, which began on July 26, 2007, repurchasing a total of 31.0 million common shares for \$1,588 million, at a weighted-average price of \$51.22 per share. Of this amount, 13.3 million common shares were repurchased in 2008 for \$690 million, at a weighted-average price of \$51.91 per share and 17.7 million common shares were repurchased in 2007 for \$897 million, at a weighted-average price of \$50.70 per share.

11 – Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided below:

A. Employee Share Investment Plan

The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 10% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employees' behalf, a further 35% of the amount invested by the employees, up to 6% of their gross salaries.

The number of participants holding shares at December 31, 2008 was 14,114 (13,385 at December 31, 2007 and 12,590 at December 31, 2006). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 1.5 million in 2008 and 1.3 million in each of 2007 and 2006, resulting in a pre-tax charge to income of \$18 million, \$16 million and \$15 million for the years ended December 31, 2008, 2007 and 2006, respectively.

B. Stock-based compensation plans

Compensation cost for awards under all stock-based compensation plans was \$27 million, \$62 million and \$79 million for the years ended December 31, 2008, 2007 and 2006, respectively. The total tax benefit recognized in income in relation to stock-based compensation expense for the years ended December 31, 2008, 2007 and 2006 was \$7 million, \$23 million and \$22 million, respectively.

*(i) Cash settled awards**Restricted share units*

The Company has granted restricted share units (RSUs), 0.7 million in 2008, 0.7 million in 2007, and 0.8 million in 2006, to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted are generally scheduled for payout after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital (ROIC) over the plan period. Payout is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period. For the 2006 grant, the target related to ROIC was exceeded. The Human Resources and Compensation Committee approved payout as permitted under the terms of the plan agreement, after considering that the ROIC target was exceeded and that the minimum share price condition was not met by a marginal amount. As such, the RSUs vested on December 31, 2008, resulting in a payout in February 2009 of \$51 million, calculated using the Company's average share price during the 20-day period ending on January 31, 2009.

Vision 2008 Share Unit Plan (Vision)

In the first quarter of 2005, the Board of Directors of the Company approved a special share unit plan with a four-year term to December 31, 2008, granting 0.9 million units to designated senior management employees to receive cash payout in January 2009. Based on the award agreement, the share units would vest conditionally upon the attainment of a target relating to the Company's share price during the six-month period ending December 31, 2008. Payout would be conditional upon the attainment of targets relating to both the Company's return on invested capital over the four-year period and to the average share price during the 20-day period ending on December 31, 2008. At December 31, 2008, the units partially vested, however, the payout condition related to the Company's share price was not met. As such, no payout occurred and the units were subsequently cancelled.

Voluntary Incentive Deferral Plan

The Company has a Voluntary Incentive Deferral Plan (VIDP), providing eligible senior management employees the opportunity to elect to receive their annual incentive bonus payment and other eligible incentive payments in deferred share units (DSUs). A DSU is equivalent to a common share of the Company and also earns dividends when normal cash dividends are paid on common shares. The number of DSUs received by each participant is established using the average closing price for the 20 trading days prior to and including the date of the incentive payment. For each participant, the Company will grant a further 25% of the amount elected in DSUs, which will vest over a period of four years. The election to receive eligible incentive payments in DSUs is no longer available to a participant when the value of the participant's vested DSUs is sufficient to meet the Company's stock ownership guidelines. The value of each participant's DSUs is payable in cash at the time of cessation of employment. The Company's liability for DSUs is marked-to-market at each period-end based on the Company's closing stock price.

The following table provides the 2008 activity for all cash settled awards:

<i>In millions</i>	RSUs		Vision		VIDP	
	Nonvested	Vested	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2007	1.6	0.9 ⁽¹⁾	0.8	-	0.2	1.9
Granted	0.7	-	-	-	-	-
Forfeited	(0.1)	-	-	-	-	-
Vested during period	(0.9)	0.9	-	-	(0.1)	0.1
Payout	-	(0.9)	-	-	-	(0.2)
Cancelled	-	-	(0.8)	-	-	-
Outstanding at December 31, 2008	1.3	0.9 ⁽¹⁾	-	-	0.1	1.8

(1) Includes 0.1 million of 2004 time-vested RSUs.

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

<i>In millions, unless otherwise indicated</i>	RSUs ⁽¹⁾					Vision ⁽¹⁾		VIDP ⁽²⁾		Total
	2008	2007	2006	2005	2004	2005	2003 onwards			
Stock-based compensation expense (recovery) recognized over requisite service period										
Year ended December 31, 2008	\$ 8	\$ (2)	\$ 24	N/A	\$ 3	\$ (10)	\$ (10)	\$ 13		
Year ended December 31, 2007	N/A	\$ 11	\$ 8	\$ 14	\$ 5	\$ 2	\$ 11	\$ 51		
Year ended December 31, 2006	N/A	N/A	\$ 21	\$ 19	\$ 6	\$ 8	\$ 11	\$ 65		
Liability outstanding										
December 31, 2008	\$ 8	\$ 9	\$ 53	N/A	\$ 3	\$ -	\$ 88	\$ 161		
December 31, 2007	N/A	\$ 11	\$ 29	\$ 48	\$ 4	\$ 8	\$ 95	\$ 195		
Fair value per unit										
December 31, 2008 ⁽³⁾	\$ 20.95	\$ 16.53	\$ 44.78	N/A	\$ 42.47	\$ -	\$ 44.78	N/A		
Fair value of awards vested during period										
Year ended December 31, 2008	\$ -	\$ -	\$ 53	N/A	\$ 3	\$ -	\$ 4	\$ 60		
Year ended December 31, 2007	N/A	\$ -	\$ 1	\$ 48	\$ 9	\$ -	\$ 5	\$ 63		
Year ended December 31, 2006	N/A	N/A	\$ -	\$ -	\$ 4	\$ -	\$ 5	\$ 9		
Nonvested awards at December 31, 2008										
Unrecognized compensation cost	\$ 5	\$ 2	\$ -	N/A	\$ -	N/A	\$ 3	\$ 10		
Remaining recognition period (years)	2.0	1.0	N/A	N/A	N/A	N/A	3.0	N/A		
Assumptions ⁽⁴⁾										
Stock price (\$)	\$ 44.78	\$ 44.78	\$ 44.78	N/A	\$ 42.47	N/A	\$ 44.78	N/A		
Expected stock price volatility ⁽⁵⁾	29%	33%	N/A	N/A	N/A	N/A	N/A	N/A		
Expected term (years) ⁽⁶⁾	2.0	1.0	N/A	N/A	N/A	N/A	N/A	N/A		
Risk-free interest rate (years) ⁽⁷⁾	1.09%	0.85%	N/A	N/A	N/A	N/A	N/A	N/A		
Dividend rate (\$) ⁽⁸⁾	\$ 0.92	\$ 0.92	N/A	N/A	N/A	N/A	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) 2004 RSUs calculated based on the Company's average share price during the 20-day period ending on December 31, 2008.

(4) Assumptions used to determine fair value are at December 31, 2008.

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

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

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

(8) Based on the annualized dividend rate.

(ii) Stock option awards

The Company has stock option plans for 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 granting. 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 December 31, 2008, 13.5 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time; performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment; and

performance-accelerated options, which vest on the sixth anniversary of the grant or prior if certain Company targets relating to return on investment and revenues are attained. As at December 31, 2008, the Company's performance and performance-accelerated stock options were fully vested.

For 2008, 2007 and 2006, the Company granted 0.9 million, 0.9 million and 1.1 million, respectively, of conventional stock options to designated senior management employees that vest over a period of four years of continuous employment.

The total number of options outstanding at December 31, 2008, for conventional, performance and performance-accelerated options was 9.7 million, 0.2 million and 3.3 million, respectively.

The following table provides the activity of stock option awards during 2008, and for options outstanding and exercisable at December 31, 2008, the weighted-average exercise price.

	Options outstanding		Nonvested options	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average grant date fair value
	<i>In millions</i>		<i>In millions</i>	
Outstanding at December 31, 2007 ⁽¹⁾	14.7	\$ 24.55	2.3	\$ 12.34
Granted	0.9	\$ 48.51	0.9	\$ 12.44
Exercised	(2.4)	\$ 18.59	N/A	N/A
Vested	N/A	N/A	(0.8)	\$ 11.81
Outstanding at December 31, 2008 ⁽¹⁾	13.2	\$ 29.05	2.4	\$ 12.54
Exercisable at December 31, 2008 ⁽¹⁾	10.8	\$ 24.08	N/A	N/A

(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 the number of stock options outstanding and exercisable as at December 31, 2008 by range of exercise price and their related intrinsic value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2008 at the Company's closing stock price of \$44.78.

Range of exercise prices	Options outstanding			Options exercisable			
	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Aggregate intrinsic value	Number of options	Weighted-average exercise price	Aggregate intrinsic value
	<i>In millions</i>			<i>In millions</i>	<i>In millions</i>		
\$ 11.42 - \$ 13.18	0.9	1.1	\$ 11.68	\$ 29	0.9	\$ 11.68	\$ 29
\$ 13.54 - \$ 19.83	1.8	1.9	\$ 16.49	51	1.8	\$ 16.49	51
\$ 20.27 - \$ 27.07	6.5	3.5	\$ 23.00	141	6.5	\$ 23.00	141
\$ 35.26 - \$ 42.24	1.2	6.1	\$ 35.90	11	0.9	\$ 35.90	8
\$ 45.18 - \$ 65.67	2.8	8.0	\$ 54.00	-	0.7	\$ 53.55	-
Balance at December 31, 2008 ⁽¹⁾	13.2	4.3	\$ 29.05	\$ 232	10.8	\$ 24.08	\$ 229

(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. As at December 31, 2008, the total number of in-the-money stock options outstanding was 10.4 million with a weighted-average exercise price of \$22.40. The weighted-average years to expiration of exercisable stock options is 3.5 years.

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

In millions, unless otherwise indicated

Year of grant	2008	2007	2006	2005	Prior to 2005	Total
Stock-based compensation expense recognized over requisite service period ⁽¹⁾						
Year ended December 31, 2008	\$ 7	\$ 2	\$ 2	\$ 3	\$ -	\$ 14
Year ended December 31, 2007	N/A	\$ 6	\$ 2	\$ 3	\$ -	\$ 11
Year ended December 31, 2006	N/A	N/A	\$ 8	\$ 3	\$ 3	\$ 14
Fair value per unit						
At grant date (\$)	\$ 12.44	\$ 13.36	\$ 13.80	\$ 9.19	\$ 8.61	N/A
Fair value of awards vested during period						
Year ended December 31, 2008	\$ -	\$ 3	\$ 3	\$ 3	\$ -	\$ 9
Year ended December 31, 2007	N/A	\$ -	\$ 4	\$ 3	\$ -	\$ 7
Year ended December 31, 2006	N/A	N/A	\$ -	\$ 3	\$ 34	\$ 37
Nonvested awards at December 31, 2008						
Unrecognized compensation cost	\$ 4	\$ 3	\$ 2	\$ -	\$ -	\$ 9
Remaining recognition period (years)	3.1	2.1	1.1	0.1	-	N/A
Assumptions						
Grant price (\$)	\$ 48.51	\$ 52.79	\$ 51.51	\$ 36.33	\$ 23.59	N/A
Expected stock price volatility ⁽²⁾	27%	24%	25%	25%	30%	N/A
Expected term (years) ⁽³⁾	5.3	5.2	5.2	5.2	6.2	N/A
Risk-free interest rate ⁽⁴⁾	3.58%	4.12%	4.04%	3.50%	5.13%	N/A
Dividend rate (\$) ⁽⁵⁾	\$ 0.92	\$ 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.

The following table provides information related to options exercised during the years ended December 31, 2008, 2007 and 2006:

<i>In millions</i>	Year ended December 31,		
	2008	2007	2006
Total intrinsic value	\$ 81	\$ 105	\$ 156
Cash received upon exercise of options	\$ 44	\$ 61	\$ 101
Related tax benefits realized	\$ 10	\$ 16	\$ 19

(iii) Stock price volatility

Compensation cost for the Company's RSU plans is based on the fair value of the awards at period end using the lattice-based valuation model for which a primary assumption is the Company's share price. In addition, the Company's liability for the VIDP is marked-to-market at period-end and, as such, is also reliant on the Company's share price. Fluctuations in the Company's share price cause volatility to stock-based compensation expense as recorded in earnings. The Company does not currently hold

any derivative financial instruments to manage this exposure. A \$1 increase in the Company's share price at December 31, 2008 would have increased stock-based compensation expense by \$4 million whereas a \$1 decrease in the price would have reduced it by \$6 million.

12 – Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The Company also has a postretirement benefit plan which provides life insurance, medical benefits and free rail travel benefits during retirement. These benefits are funded as they become due. The information in the tables that follow pertains to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Plan), unless otherwise specified.

A. Description of the Plan

The Plan is a contributory defined benefit pension plan that covers the majority of CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain/loss sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties, which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Plan and the related legislation. The Company utilizes a measurement date of December 31 for the Plan.

B. Funding policy

Employee contributions to the Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, *The Pension Benefits Standards Act, 1985*, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. The latest actuarial valuation of the Plan was conducted as at December 31, 2007 and indicated a funding excess. Based on this actuarial valuation, total contributions for all of the Company's pension plans are expected to be approximately \$130 million in each of 2009 and 2010. All of the Company's contributions are expected to be in the form of cash.

C. Description of fund assets

The assets of the Plan are accounted for separately in the CN Pension Trust Funds and consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and other assets. The assets of the Plan have a fair market value of \$12,940 million as at December 31, 2008 (\$15,208 million at December 31, 2007). The Plan's target percentage allocation and weighted-average asset allocations as at December 31, 2008 and 2007, by asset category are as follows:

Plan assets by category	Target allocation	December 31, 2008 2007	
Equity securities	53%	41%	51%
Debt securities	40%	39%	34%
Real estate	4%	2%	2%
Other	3%	18%	13%
	100%	100%	100%

The Company follows a disciplined investment strategy, which limits concentration of investments by asset class, foreign currency, sector or company. The Investment Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets based on a review of historical returns achieved by worldwide investment markets. Investment managers may deviate from these targets but their performance is evaluated in relation to the market performance of the target mix. The Company does not anticipate the long-term return on plan assets to fluctuate materially from related capital market indices. The Investment Committee reviews investments regularly with specific approval required for major investments in illiquid securities. The policy also permits the use of derivative financial instruments to implement asset mix decisions or to hedge existing or anticipated exposures. The Plan does not invest in the securities of the Company or its subsidiaries.

D. Other disclosures pursuant to SFAS No. 158 requirements

(i) Obligations and funded status

In millions	Year ended December 31,	Pensions		Other postretirement benefits	
		2008	2007	2008	2007
Change in benefit obligation					
Benefit obligation at beginning of year		\$ 14,419	\$ 14,545	\$ 266	\$ 286
Amendments		-	-	6	12
Adoption of SFAS No. 158 measurement date provision (Note 2)		-	3	-	2
Interest cost		801	742	15	15
Actuarial gain		(2,274)	(195)	(23)	(7)
Service cost		136	150	4	5
Curtailment gain		-	-	(13)	(9)
Plan participants' contributions		52	54	-	-
Foreign currency changes		45	(33)	23	(21)
Benefit payments and transfers		(853)	(847)	(18)	(17)
Benefit obligation at end of year		\$ 12,326	\$ 14,419	\$ 260	\$ 266
Component representing future salary increases		(397)	(618)	-	-
Accumulated benefit obligation at end of year		\$ 11,929	\$ 13,801	\$ 260	\$ 266
Change in plan assets					
Fair value of plan assets at beginning of year		\$ 16,000	\$ 15,625	\$ -	\$ -
Employer contributions		127	75	-	-
Plan participants' contributions		52	54	-	-
Foreign currency changes		27	(26)	-	-
Actual return on plan assets		(1,742)	1,119	-	-
Benefit payments and transfers		(853)	(847)	-	-
Fair value of plan assets at end of year		\$ 13,611	\$ 16,000	-	-
Funded (unfunded) status (Excess of fair value of plan assets over benefit obligation at end of year)		\$ 1,285	\$ 1,581	\$ (260)	\$ (266)

Measurement date for all plans is December 31.

(ii) Amounts recognized in the Consolidated Balance Sheet

In millions	December 31,	Pensions		Other postretirement benefits	
		2008	2007	2008	2007
Noncurrent assets (Note 6)		\$ 1,522	\$ 1,768	\$ -	\$ -
Current liabilities (Note 7)		-	-	(19)	(18)
Noncurrent liabilities (Note 8)		(237)	(187)	(241)	(248)
Total amount recognized		\$ 1,285	\$ 1,581	\$ (260)	\$ (266)

(iii) Amounts recognized in Accumulated other comprehensive loss (Note 19)

In millions	December 31,	Pensions			Other postretirement benefits			
		2008	2007	2006	2008	2007		
Net actuarial gain	\$	551	\$	1,039	\$	61	\$	27
Prior service cost	\$	-	\$	(19)	\$	(9)	\$	(8)

(iv) Information for the pension plan with an accumulated benefit obligation in excess of plan assets

In millions	December 31,	Pensions			Other postretirement benefits	
		2008	2007	2006	2008	2007
Projected benefit obligation	\$	365	\$	266	N/A	N/A
Accumulated benefit obligation	\$	327	\$	229	N/A	N/A
Fair value of plan assets	\$	128	\$	79	N/A	N/A

(v) Components of net periodic benefit cost (income)

In millions	Year ended December 31,	Pensions			Other postretirement benefits							
		2008	2007	2006	2008	2007	2006					
Service cost	\$	136	\$	150	\$	146	\$	4	\$	5	\$	4
Interest cost		801		742		713		15		15		16
Curtailement gain		-		-		-		(7)		(4)		-
Expected return on plan assets		(1,004)		(935)		(903)		-		-		-
Amortization of prior service cost		19		19		19		2		2		2
Recognized net actuarial loss (gain)		-		53		91		(2)		(4)		(5)
Net periodic benefit cost (income)	\$	(48)	\$	29	\$	66	\$	12	\$	14	\$	17

The estimated prior service cost and net actuarial loss for defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are nil and \$6 million, respectively.

The estimated prior service cost and net actuarial gain for other postretirement benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$2 million and \$4 million, respectively.

(vi) Weighted-average assumptions used in accounting for pensions and other postretirement benefits

	December 31,	Pensions			Other postretirement benefits		
		2008	2007	2006	2008	2007	2006
<i>To determine benefit obligation</i>							
Discount rate		7.42%	5.53%	5.12%	6.84%	5.84%	5.44%
Rate of compensation increase		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
<i>To determine net periodic benefit cost</i>							
Discount rate		5.53%	5.12%	5.00%	5.84%	5.44%	5.30%
Rate of compensation increase		3.50%	3.50%	3.75%	3.50%	3.50%	3.75%
Expected return on plan assets		8.00%	8.00%	8.00%	N/A	N/A	N/A

To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers its past experience and future estimates of long-term investment returns, the expected composition of the plans' assets as well as the expected long-term market returns in the future.

Effective January 1, 2009, the Company will reduce the expected long-term rate of return on plan assets from 8.00% to 7.75% to reflect management's current view of long-term investment returns. The effect of this change in management's assumption will be to decrease net periodic benefit income in 2009 by approximately \$17 million.

The Company has elected to use a market-related value of assets, whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments are recognized over a period of five years, while investment income is recognized immediately.

(vii) Health care cost trend rate for other postretirement benefits

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 12% for each of 2008 and 2009. It is assumed that the rate will decrease gradually to 4.5% in 2028 and remain at that level thereafter.

Assumed health care costs have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend would have the following effect:

<i>In millions</i>	One-percentage-point	
	Increase	Decrease
Effect on total service and interest costs	\$ 1	\$ (1)
Effect on benefit obligation	\$ 16	\$ (14)

(viii) Estimated future benefit payments

<i>In millions</i>	Pensions	Other postretirement benefits
2009	\$ 894	\$ 20
2010	922	21
2011	952	21
2012	980	21
2013	1,005	22
Years 2014 to 2018	5,363	123

13 – Other income

<i>In millions</i>	Year ended December 31,		
	2008	2007	2006
Gain on disposal of properties	\$ 22	\$ 14	\$ 16
Gain on disposal of Central Station Complex (Note 5)	-	92	-
Gain on disposal of investment in EWS (Note 6)	-	61	-
Equity in earnings of EWS (Note 6)	-	5	(6)
Net real estate costs	(10)	(6)	(12)
Costs related to the Accounts receivable securitization program (Note 4)	(10)	(24)	(12)
Foreign exchange gain (loss)	(14)	24	18
Other	38	-	7
	\$ 26	\$ 166	\$ 11

14 – Income taxes

The Company's consolidated effective income tax rate differs from the Canadian statutory Federal tax rate. The reconciliation of income tax expense is as follows:

<i>In millions</i>	<i>Year ended December 31,</i>		2008	2007	2006
Federal tax rate			19.5%	22.1%	22.1%
Income tax expense at the statutory Federal tax rate	\$	(496)	\$	(598)	\$ (603)
Income tax (expense) recovery resulting from:					
Provincial and other taxes		(304)		(318)	(354)
Deferred income tax adjustments due to rate enactments		23		317	228
Other ⁽¹⁾		127		51	87
Income tax expense	\$	(650)	\$	(548)	\$ (642)
Cash payments for income taxes	\$	425	\$	867	\$ 307

(1) Comprises adjustments relating to the resolution of matters pertaining to prior years' income taxes, including net recognized tax benefits, and other items.

The following table provides tax information for Canada and the United States:

<i>In millions</i>	<i>Year ended December 31,</i>		2008	2007	2006
<i>Income before income taxes</i>					
Canada	\$	1,976	\$	1,983	\$ 2,009
U.S.		569		723	720
	\$	2,545	\$	2,706	\$ 2,729
<i>Current income tax expense</i>					
Canada	\$	(316)	\$	(418)	\$ (440)
U.S.		(104)		(212)	(199)
	\$	(420)	\$	(630)	\$ (639)
<i>Deferred income tax recovery (expense)</i>					
Canada	\$	(153)	\$	141	\$ 102
U.S.		(77)		(59)	(105)
	\$	(230)	\$	82	\$ (3)

Significant components of deferred income tax assets and liabilities are as follows:

<i>In millions</i>	<i>December 31,</i>	
	2008	2007
<i>Deferred income tax assets</i>		
Workforce reduction provisions	\$ 16	\$ 22
Personal injury claims and other reserves	177	146
Other postretirement benefits liability	87	85
Losses and tax credit carryforwards	48	24
	328	277
<i>Deferred income tax liabilities</i>		
Net pension asset	352	429
Properties and other	5,389	4,688
	5,741	5,117
<i>Total net deferred income tax liability</i>	\$ 5,413	\$ 4,840
<i>Total net deferred income tax liability</i>		
Canada	\$ 2,113	\$ 2,191
U.S.	3,300	2,649
	\$ 5,413	\$ 4,840
Total net deferred income tax liability	\$ 5,413	\$ 4,840
Net current deferred income tax asset	98	68
<i>Long-term deferred income tax liability</i>	\$ 5,511	\$ 4,908

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credit carryforwards are utilized. At December 31, 2008, the Company had approximately \$20 million in operating loss carryforwards available to reduce future taxable income. The Company has not recognized a deferred tax asset (\$150 million at December 31, 2008) on the foreign exchange loss recorded in Accumulated other comprehensive loss on its permanent investment in U.S. rail subsidiaries, as the Company does not expect this temporary difference to reverse in the foreseeable future.

The Company recognized tax credits of \$4 million in each of 2008, 2007 and 2006 for eligible research and development expenditures, which reduced the cost of properties.

The following table provides reconciliation for unrecognized tax benefits for Canada and the United States:

In millions

Gross unrecognized tax benefits as at January 1, 2008	\$	158
Additions:		
Tax positions related to the current year		2
Tax positions related to prior years		11
Interest accrued on tax positions		6
Deductions:		
Tax positions related to prior years		(31)
Interest accrued on tax positions		(30)
Settlements		(37)
<i>Gross unrecognized tax benefits as at December 31, 2008</i>	<i>\$</i>	<i>79</i>
Adjustments to reflect tax treaties and other arrangements		(38)
<i>Net unrecognized tax benefits as at December 31, 2008</i>	<i>\$</i>	<i>41</i>

At December 31, 2008, the total amount of gross unrecognized tax benefits was \$79 million, before considering tax treaties and other arrangements between taxation authorities, of which \$19 million related to accrued interest and penalties. If recognized, all of the net unrecognized tax benefits would affect the effective tax rate.

It is expected that the amount of unrecognized tax benefits will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

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

In Canada, the federal income tax returns filed for the years 2004 to 2007 and the provincial income tax returns filed for the years 2003 to 2007 remain subject to examination by the taxation authorities. In the U.S., the income tax returns filed for the years 2004 to 2007 remain subject to examination by the taxation authorities.

15 – Segmented information

The Company manages its operations as one business segment over a single network that spans vast geographic distances and territories, with operations in Canada and the United States. Financial information reported at this level, such as revenues, operating income, and cash flow from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating financial and operational performance and allocating resources across CN's network.

The Company's strategic initiatives, which drive its operational direction, are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region). Corporate management is responsible for, among others, CN's marketing strategy, the management of large customer accounts, overall planning and control of infrastructure and rolling stock, the allocation of resources, and other functions such as financial planning, accounting and treasury.

The role of each region is to manage the day-to-day service requirements within their respective territories and control direct costs incurred locally. Such cost control is required to ensure that pre-established efficiency standards set at the corporate level are met. The regions execute the overall corporate strategy and operating plan established by corporate management, as their management of throughput and control of direct costs does not serve as the platform for the Company's decision-making process. Approximately 91% of the Company's freight revenues are from national accounts for which freight traffic spans North America and touches various commodity groups. As a result, the Company does not manage revenues on a regional basis since a large number of the movements originate in one region and pass through and/or terminate in another region.

The regions also demonstrate common characteristics in each of the following areas:

- (i) each region's sole business activity is the transportation of freight over the Company's extensive rail network;
- (ii) the regions service national accounts that extend over the Company's various commodity groups and across its rail network;
- (iii) the services offered by the Company stem predominantly from the transportation of freight by rail with the goal of optimizing the rail network as a whole;
- (iv) the Company and its subsidiaries, not its regions, are subject to single regulatory regimes in both Canada and the U.S. For the reasons mentioned herein, the Company reports as one operating segment.

The following tables provide information by geographic area:

<i>In millions</i>	<i>Year ended December 31,</i>	2008	2007	2006
<i>Revenues</i>				
Canada	\$	5,632	\$ 5,265	\$ 5,293
U.S.		2,850	2,632	2,636
	\$	8,482	\$ 7,897	\$ 7,929

<i>In millions</i>	<i>Year ended December 31,</i>	2008	2007	2006
<i>Net income</i>				
Canada	\$	1,507	\$ 1,706	\$ 1,671
U.S.		388	452	416
	\$	1,895	\$ 2,158	\$ 2,087

<i>In millions</i>	<i>December 31,</i>	2008	2007
<i>Properties</i>			
Canada		\$ 12,377	\$ 11,777
U.S.		10,826	8,636
		\$ 23,203	\$ 20,413

16 – Earnings per share

	Year ended December 31,		2008		2007		2006	
Basic earnings per share	\$	3.99	\$	4.31	\$	3.97		
Diluted earnings per share	\$	3.95	\$	4.25	\$	3.91		

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

<i>In millions</i>	Year ended December 31,		2008		2007		2006	
Net income	\$	1,895	\$	2,158	\$	2,087		
Weighted-average shares outstanding		474.7		501.2		525.9		
Effect of stock options		5.3		6.8		8.4		
<i>Weighted-average diluted shares outstanding</i>		480.0		508.0		534.3		

For the years ended December 31, 2008, 2007 and 2006, 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, were 0.3 million, 0.1 million and 0.2 million, respectively.

17 – Major commitments and contingencies

A. Leases

The Company has operating and capital leases, mainly for locomotives, freight cars and intermodal equipment. Of the capital leases, many provide the option to purchase the leased items at fixed values during or at the end of the lease term. As at December 31, 2008, the Company's commitments under these operating and capital leases were \$876 million and \$1,837 million, respectively. Minimum rental payments for operating leases having initial non-cancelable lease terms of one year or more and minimum lease payments for capital leases in each of the next five years and thereafter are as follows:

<i>In millions</i>	Operating		Capital	
2009	\$	166	\$	207
2010		134		158
2011		112		199
2012		87		96
2013		65		145
2014 and thereafter		312		1,032
	\$	876		1,837
<i>Less: imputed interest on capital leases at rates ranging from approximately 2.1% to 7.9%</i>				525
<i>Present value of minimum lease payments included in debt</i>			\$	1,312

The Company also has operating lease agreements for its automotive fleet with minimum one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately \$30 million and generally extend over five years.

Rent expense for all operating leases was \$202 million, \$207 million and \$202 million for the years ended December 31, 2008, 2007 and 2006, respectively. Contingent rentals and sublease rentals were not significant.

B. Other commitments

As at December 31, 2008, 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 \$1,006 million. The Company also has agreements with fuel suppliers to purchase approximately 82% of the estimated remaining 2009 volume and 32% of its anticipated 2010 volume, at market prices prevailing on the date of the purchase.

C. Contingencies

The Company becomes involved, from time to time, in various legal actions seeking compensatory, and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to personal injuries, occupational disease, and property damage, arising out of harm to individuals or property allegedly caused by derailments or other accidents.

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, 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.

At December 31, 2008, 2007 and 2006, the Company's provision for personal injury and other claims in Canada was as follows:

<i>In millions</i>		2008		2007		2006
Balance January 1	\$	196	\$	195	\$	205
Accruals and other		42		41		60
Payments		(49)		(40)		(70)
Balance December 31	\$	189	\$	196	\$	195

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.

In 2008, 2007 and 2006, the Company recorded net reductions to its provision for U.S. personal injury and other claims pursuant to the results of external actuarial studies of \$28 million, \$97 million and \$62 million, respectively. The reductions were mainly attributable to decreases in the Company's estimates of unasserted claims and costs related to asserted claims as a result of its ongoing risk mitigation strategy focused on prevention, mitigation of claims and containment of injuries, lower settlements for existing claims and reduced severity relating to non-occupational disease claims.

Due to the inherent uncertainty involved in projecting future events related to occupational diseases, which include but are not limited to, the number of expected claims, the average cost per claim and the legislative and judicial environment, the Company's future obligations may differ from current amounts recorded.

At December 31, 2008, 2007 and 2006, the Company's provision for U.S. personal injury and other claims was as follows:

<i>In millions</i>	2008		2007		2006	
Balance January 1	\$	250	\$	407	\$	452
Accruals and other		57		(111)		(8)
Payments		(42)		(46)		(37)
Balance December 31	\$	265	\$	250	\$	407

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 December 31, 2008, 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.

D. 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.

Known existing environmental concerns

The Company has identified approximately 345 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, including those imposed by the United States Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law. CERCLA and 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, as well as those whose waste is disposed of at the 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 10 sites governed by the Superfund law 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. The ultimate cost of addressing these known contaminated sites cannot be definitely established, given that the environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up techniques, the Company's share of the costs and evolving regulatory standards governing environmental liability. A liability is initially recorded when environmental assessments occur and/or remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted, is recorded net of potential and actual insurance recoveries, and includes costs for remediation and restoration of sites, as well as significant monitoring costs. Environmental accruals, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates. In 2005, the Company had incurred a liability related to a derailment at Wabamun Lake, Alberta. Over the last three years, this liability was adjusted for additional environmental and legal claims and reduced by payments made pursuant to the clean-up performed. At December 31, 2008, the majority of the clean-up work has been completed and the remaining costs are expected to be minimal. At December 31, 2008, the Company has an amount receivable for the remaining estimated recoveries from the Company's insurance carriers who covered substantially all expenses related to the derailment above the self-insured retention of \$25 million, which was recorded in operating expenses in 2005.

At December 31, 2008, 2007 and 2006, the Company's provision for specific environmental sites was as follows:

<i>In millions</i>	2008	2007	2006
Balance January 1	\$ 111	\$ 131	\$ 124
Accruals and other	29	(1)	17
Payments	(15)	(19)	(10)
<i>Balance December 31</i>	<i>\$ 125</i>	<i>\$ 111</i>	<i>\$ 131</i>

The Company anticipates that the majority of the liability at December 31, 2008 will be paid out over the next five years. However, some costs may be paid out over a longer period. No individual site is considered to be material. Based on the information currently available, the Company considers its provisions to be adequate.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred for environmental matters in the next several years, based on known information, newly discovered facts, changes in law, the possibility of spills and releases of hazardous materials into the environment and the Company's ongoing efforts to identify potential environmental liabilities that may be associated with its properties may result in the identification of additional environmental liabilities and related costs. The magnitude of such additional liabilities and the costs of complying with future environmental laws and containing or remediating contamination cannot be reasonably estimated due to many factors, including:

- (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

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 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 liabilities or costs, although management believes, based on current information, that the costs to address environmental matters will not have a material adverse effect on the Company's financial condition or liquidity. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

Future occurrences

In railroad and related transportation operations, it is possible that derailments or other accidents, including spills and releases of hazardous materials, may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, compliance with laws and other risks, including costs relating to the performance of clean-ups, payment of environmental penalties and remediation obligations, and damages relating to harm to individuals or property.

Regulatory compliance

The Company may incur significant capital and operating costs 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. Operating expenses amounted to \$10 million in 2008 (\$10 million in 2007 and \$10 million in 2006). In addition, based on the results of its operations and maintenance programs, as well as ongoing environmental audits and other factors, the Company plans for specific capital improvements on an annual basis. Certain of these improvements help ensure facilities, such as fuelling stations and wastewater and storm water treatment systems, comply with environmental standards and include new

construction and the updating of existing systems and/or processes. Other capital expenditures relate to assessing and remediating certain impaired properties. The Company's environmental capital expenditures amounted to \$9 million in 2008, \$14 million in 2007 and \$18 million in 2006. The Company expects to incur capital expenditures relating to environmental matters of approximately \$17 million in 2009, \$14 million in 2010 and \$13 million in 2011.

E. Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, 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 2009 and 2020, 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 December 31, 2008, the maximum exposure in respect of these guarantees was \$164 million. There are no recourse provisions to recover any amounts from third parties.

(ii) Other guarantees

The Company, including certain of its subsidiaries, 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 December 31, 2008, the maximum potential liability under these guarantees was \$500 million, of which \$415 million was for workers' compensation and other employee benefits and \$85 million was for equipment under leases and other. During 2008, the Company has granted guarantees for which no liability has been recorded, as they relate to the Company's future performance.

As at December 31, 2008, 2007 and 2006, 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 2009 and 2011.

(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 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.

18 – Financial instruments

A. Risk management

In the normal course of business, the Company is exposed to various risks such as credit risk, commodity price risk, interest rate risk, foreign currency risk, and liquidity risk. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Audit Committee, with a goal of maintaining a strong balance sheet, optimizing earnings per share and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company has limited involvement with derivative financial instruments in the management of its risks and does not use them for trading purposes. At December 31, 2008, the Company did not have any derivative financial instruments outstanding.

(i) Credit risk

In the normal course of business, the Company monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. Although, the Company believes there are no significant concentrations of credit risk, the current economic conditions in the market have resulted in an increase in the Company's credit risk. To manage its credit risk, the Company's focus is on keeping the average daily sales outstanding within a reasonable range, working with customers to ensure timely payments, and in certain cases, requiring financial security through letters of credit.

(ii) Fuel

The Company is exposed to commodity risk related to purchases of fuel and the potential reduction in net income due to increases in the price of diesel. The impact of variable fuel expense is mitigated substantially through the Company's fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines. While this program provides effective coverage, residual exposure remains given that fuel price risk cannot be completely mitigated due to timing and given the volatility in the market. As such, the Company may enter into derivative instruments to mitigate such risk when considered appropriate.

The Company had a hedging program which called for entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. However, no additional swap positions were entered into since September 2004. As such, the Company terminated this program in late 2006.

Since the changes in the fair value of the swap positions were highly correlated to changes in the price of fuel, the hedges were accounted for as cash flow hedges, whereby the effective portion of the cumulative change in the market value of the derivative instruments had been recorded in Accumulated other comprehensive loss.

During 2006, the Company's remaining swap positions matured and were settled. As a result, the related unrealized gains of \$57 million, \$39 million after-tax previously recorded in Accumulated other comprehensive loss were reclassified into income

as realized gains. Total realized gains from the Company's fuel hedging activities, which were recorded as a reduction of fuel expense, were \$64 million for the year ended December 31, 2006. The Company did not recognize any material gains or losses in 2006 due to hedge ineffectiveness as the Company's derivative instruments were highly effective in hedging the changes in cash flows associated with forecasted purchases of diesel fuel.

(iii) Interest rate

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. Such risk exists in relation to the funded status of the Company's pension and postretirement plans and to its long-term debt. The Company mainly issues debt subject to fixed interest rates, which exposes the Company to variability in the fair value of the debt. The Company also issues debt with variable interest rates through commercial paper borrowing and capital leases, which exposes the Company to variability in interest expense. To manage its interest rate exposure, the Company manages its borrowings in line with liquidity needs, maturity schedule, currency and interest rate profile. In anticipation of future debt issuance, the Company may enter into forward rate agreements. The Company does not currently hold any derivative financial instruments to manage its interest rate risk. At December 31, 2008, Accumulated other comprehensive loss included an unamortized gain of \$11 million, \$8 million after-tax (\$11 million, \$8 million after-tax at December 31, 2007) relating to treasury lock transactions settled in 2004, which are being amortized over the term of the related debt.

(iv) Foreign currency

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby further affect the Company's revenues and expenses.

All of the Company's United States (U.S.) operations are self-contained foreign entities with the U.S. dollar as their functional currency. Accordingly, the U.S. operations' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (loss). For the purpose of minimizing volatility of earnings resulting from the conversion of U.S. dollar-denominated long-term debt into the Canadian dollar, the Company designates the U.S. dollar-denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar-denominated long-term debt are recorded in Accumulated other comprehensive loss.

Occasionally, the Company enters into short-term foreign exchange contracts as part of its cash management strategy. At December 31, 2008, the Company did not have any foreign exchange contracts outstanding.

(v) Liquidity risk

The Company monitors and manages its cash requirements to ensure access to sufficient funds to meet operational and investing requirements. The Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet, by monitoring its adjusted debt-to-total capitalization and adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) ratios, and preserving a strong credit rating to be able to maintain access to public financing.

The Company's principal source of liquidity is cash generated from operations, which is supplemented by its accounts receivable securitization program and its commercial paper program, to meet short-term liquidity needs. The Company's primary uses of funds are for working capital requirements, including income tax installments as they come due and pension contributions, contractual obligations, capital expenditures relating to track infrastructure and other, acquisitions, dividend payouts, and the repurchase of shares through the share buyback program. As such, the Company sets priorities on its uses of available funds based on short-term operational requirements, expenditures to maintain a safe railway and strategic initiatives, while keeping in mind its long-term contractual obligations and returning value to its shareholders.

B. Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(i) *Cash and cash equivalents, Accounts receivable, Other current assets, Accounts payable and accrued charges, and Other current liabilities:*

The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) *Other assets:*

Investments: The Company has various equity investments for which the carrying value approximates the fair value, with the exception of certain cost investments for which the fair value was estimated based on the Company's proportionate share of its net assets.

(iii) *Long-term debt:*

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2008 and 2007 for which the carrying values on the Consolidated Balance Sheet are different from their fair values:

<i>In millions</i>	December 31, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial assets</i>				
Investments	\$ 24	\$ 127	\$ 24	\$ 95
<i>Financial liabilities</i>				
Long-term debt (including current portion)	\$ 7,911	\$ 8,301	\$ 5,617	\$ 5,850

19 – Accumulated other comprehensive loss

The components of Accumulated other comprehensive loss are as follows:

<i>In millions</i>	<i>December 31,</i>	2008	2007
Unrealized foreign exchange loss	\$	(575)	\$ (762)
Pension and other postretirement benefit plans		412	723
Derivative instruments		8	8
<i>Accumulated other comprehensive loss</i>	\$	(155)	\$ (31)

The components of Other comprehensive income (loss) and the related tax effects are as follows:

<i>In millions</i>	<i>Year ended December 31,</i>	2008	2007	2006
Accumulated other comprehensive loss - Balance at January 1	\$	(31)	\$ (44)	\$ (222)
Other comprehensive income (loss):				
Unrealized foreign exchange income (loss) (net of income tax (expense) recovery of \$194, \$(91), and \$(197), for 2008, 2007 and 2006, respectively)		187	(307)	(198)
Pension and other postretirement benefit plans (net of income tax (expense) recovery of \$125, \$(129), and nil, for 2008, 2007 and 2006, respectively) (Note 12)		(311)	320	1
Derivative instruments (net of income tax recovery of nil, \$1, and \$18, for 2008, 2007 and 2006, respectively) (Note 18)		-	-	(39)
<i>Other comprehensive income (loss)</i>		(124)	13	(236)
Adjustment to reflect the funded status of benefit plans (Note 2):				
Net actuarial gain (net of income tax expense of \$(200) for 2006)		-	-	434
Prior service cost (net of income tax recovery of \$14 for 2006)		-	-	(31)
Reversal of minimum pension liability adjustment (net of income tax expense of \$(6) for 2006)		-	-	11
<i>Accumulated other comprehensive loss - Balance at December 31</i>	\$	(155)	\$ (31)	\$ (44)

20 – Comparative figures

Certain figures, previously reported in 2007 and 2006, have been reclassified to conform with the basis of presentation adopted in 2008.