DECHERD ROBERT W
Form 4
December 05, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
DECHERD ROBERT W

(Last) (First) (Middle)

A. H. BELO CORPORATION, P.O. BOX 224866

(Street)

DALLAS, TX 75222-4866

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
A. H. Belo CORP [AHC]

3. Date of Earliest Transaction (Month/Day/Year)
12/03/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, President & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)	Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount Number Shares
Employee Stock Option (Right to Buy)	$ 2.05	12/03/2008	A		120,000		(1)	12/03/2018	Series B Common Stock	120,00

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DECHERD ROBERT W A. H. BELO CORPORATION P.O. BOX 224866 DALLAS, TX 75222-4866	X		Chairman, President & CEO	

Signatures

Kay F. Stockler, Attorney-In-Fact	12/05/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The options become exercisable as to 48,000 shares on 12/03/2009, as to 36,000 shares on 12/03/2010, and as to the remaining shares on 12/03/2011.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ; FONT-SIZE: 10pt; FONT-FAMILY: Arial"> The U.S. housing market continues to struggle with a high number of foreclosures and weak housing prices, and is expected to recover at a moderate pace over the long term. Canadian producers continue to look for other markets, and Asia will continue to play an increasing role in lumber consumption.

The wood pulp segment is expected to benefit from solid offshore markets. Wood pellets are expected to flow primarily into European markets, while fibres in the form of wood pulp and wood chips will move mainly into the Asian market.

The Company continues to develop and diversify product offerings, such as car reload programs and intermodal options; as well as expand its presence in developing markets for wood pellets, lumber, wood pulp and recycled paper. CN-served western Canadian producers continue to be some of the most cost-efficient mills in North America, and are focused on continuing to take advantage of new market opportunities for mountain pine beetle-affected wood.

With the increasing globalization of traffic flows and the growth of emerging product markets, CN is looking for new opportunities beyond the traditional Forest products segments.

FOREST PRODUCTS SUPPLY-CHAIN INNOVATION

SEVEN-DAY-A-WEEK SERVICE

CN, Squamish Terminals Ltd., Tembec Inc., Canfor Pulp Limited Partnership (CPLP), West Fraser Timber Co. Ltd. (WFT) and Daishowa-Marubeni International Ltd. reached an agreement in January 2011. Under this new agreement, CN provides seven-day-a-week service to Squamish Terminals, which in turn guarantees to unload pulp cars daily. The producers work with both CN and Squamish Terminals to manage inbound traffic flows to match export vessel schedules.

This agreement is intended to optimize the flow of wood pulp exports to global markets through Squamish Terminals, one of the largest pulp- handling terminals on North America’s West Coast. The agreement will add even greater transparency and accountability to the supply chain.

For the terminal operator, the agreement allows it to better plan transhipments of export pulp from rail to ocean-going vessel. This enhanced planning capability includes better forecasting of handling-equipment requirements and terminal-operations staffing needs. For the wood pulp producers, it helps them to reach the highest reliability levels for product delivery, and to provide superior customer service.

All stakeholders in this supply chain benefit from increased efficiencies and higher throughput. They stand ready to increase their share of growing international wood-pulp markets.

FOREST PRODUCTS SPOTLIGHT

CN TRANSLOAD FACILITIES

CN's Forest products transload facilities network includes 17 strategically positioned transfer, warehousing and reload facilities handling over two million tons of forest products each year. These facilities provide a number of value-added services to rail and non-rail-served shippers and receivers. This allows the Company to extend existing rail shippers' market reach and enable non-rail-served shippers and receivers to benefit from rail transportation's cost advantages.

This network provides value-added services to CN customers:

- Positions products for just-in-time deliveries to markets outside their existing service areas.
- Reduces or eliminates customers' capital expenditures and corporate risk.
- Provides state-of-the-art transfer and transportation services.
- Reduces or eliminates customers' need for on-site storage.
- Provides seamless integration with CN's rail network for non-rail served customers.

VANCOUVER TRANSLOAD In the fall of 2011, CN is scheduled to start operation of the lumber container export facility at its Thornton Yard in Surrey, B.C. It will have an initial footprint of eight acres and throughput capacity of approximately 10,000 containers per year, with room to grow up to 20 acres. The facility, supplied with railcars of lumber originating in communities in the British Columbia Interior, will make it easier to transport lumber to export markets in China.

PRINCE GEORGE TRANSLOAD CN is also planning to increase lumber transload capacity at its Prince George transload facility to more than 30,000 containers annually. The facility was built in 2007 to support Port of Prince Rupert export opportunities. Prince George, located 500 miles east of Prince Rupert, is in close proximity to British Columbia's large fibre reserves and other natural resources.

FOREST PRODUCTS TRANSLOAD FACILITIES

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AUTOMOTIVE

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AUTOMOTIVE

OVERVIEW

CN is a transportation leader for the automotive industry, handling over 1.8 million vehicles in 2010. CN is also a key player in the automotive supply chain, originating and delivering products throughout North America, as well as importing and exporting new vehicles through the ports of Halifax and Vancouver. CN's rail network, vehicle distribution facilities and Intermodal terminals on the West and East coasts are well positioned to offer seamless access to key port facilities and global trade.

The Company participates in the movement of finished vehicles and parts, providing access to certain vehicle assembly plants in Canada, and Michigan and Mississippi in the U.S. CN also serves vehicle-distribution facilities in Canada and the U.S., as well as parts-production facilities in Michigan and Ontario.

CN's north-south positioning – with rail connections to all Class I carriers at major gateways including Chicago, Ill.; Detroit, Mich.; and Buffalo, N.Y. – offers automotive customers routing alternatives between Canadian, U.S. and Mexican locations. CN also offers service beyond the Chicago gateway, extending its automotive reach to a variety of interchange locations including Salem, Ill. and Memphis, Tenn.

In 2010, CN's finished-vehicle traffic totalled 88 per cent of the Automotive group's revenues, while vehicle parts made up the remaining 12 per cent. The Company's Automotive revenues are closely correlated to automotive production and sales in North America.

AUTOMOTIVE

Automobile distribution centres accessible by CN

Allied Systems	Delta, B.C.
Annacis Auto Terminals	Delta, B.C.
Calgary	Calgary, Alta.
Charny**	Charny, Que.
Corner Brook	Corner Brook, N.L.
Edmonton**	Edmonton, Alta.
Flat Rock**	Flat Rock, Mich.
Fraser Wharves	Richmond, B.C.
Halifax**	Eastern Passage, N.S.
Jackson**	Jackson, Miss.
King Road**	Woodhaven, Mich.
Lansing**	Charlotte, Mich.
Moncton**	Moncton, N.B.
Montreal**	St. Laurent, Que.
Markham**	Harvey, Ill. (Chicago)
Regina	Regina, Sask.
Saskatoon**	Saskatoon, Sask.
St. John’s	St. John’s, N.L.
Toronto**	Concord, Ont.
Windsor	Windsor, Ont.
Winnipeg	Winnipeg, Man.
Woodhaven	Woodhaven, Mich.

**Autoport facility

REVIEW

For the year ending December 31, 2010, revenues for the Automotive group increased by $102 million, or 29 per cent, when compared to 2009. The increase was mainly due to significantly higher volumes of domestic finished vehicle traffic, freight rate increases, and the impact of a higher fuel surcharge. These factors were partly offset by the negative translation impact of the stronger Canadian dollar.

Revenues for the Automotive group increased by $3 million, or one per cent, in the first six months of 2011 when compared to the same period in 2010. The increase was mainly due to freight rate increases and higher domestic

finished vehicle volumes, partly offset by the negative translation impact of the stronger Canadian dollar and lower shipments of imported finished vehicles partly due to the impact of the Japanese earthquake and tsunami in March 2011.

OUTLOOK

The recovery in the automotive industry is expected to continue progressively, following a strong year in 2010. CN is well positioned to handle this upswing, serving automotive facilities that uniquely provide product for the North American market. The Company continues to work with its automotive customers to develop new supply-chain opportunities that will use CN’s rail network and assets for vehicle and automotive parts domestic and global distribution.

AUTOMOTIVE SPOTLIGHT

CN AUTOPORT

CN Autoport, a subsidiary company, offers automotive manufacturers a comprehensive range of vehicle-logistics services. A mainstay in the industry for 38 years, CN Autoport processed 2.4 million vehicles in 2010. Autoport's customers include Ford, GM and Chrysler, as well as all European, Japanese and Korean manufacturers. Autoport's vehicle services include: OEM yard management, quality assurance inspections, railcar load and off-load and vehicle release to haulaway carriers. Each transportation component is an integral part of the finished-vehicle supply chain. At several facilities, Autoport also provides for vehicle preparation including mechanical repair, paint and body-shop work. Autoport manages manufacturers' vehicle inventory, full dealer pre-delivery inspection (PDI), and vehicle programs such as battery, wrap guard, maintenance, accessory and air conditioning installation.

AUTOMOTIVE SUPPLY-CHAIN INNOVATION

IMPROVING DWELL TIME AT HALIFAX AUTOPORT

Autoport's Halifax (Eastern Passage) Terminal, one of the largest vehicle-processing and transloading facilities in North America, receives vehicles weekly from ocean-going vessels. Autoport processes and transfers these vehicles to CN railcars for distribution throughout Canada. During 2010, Autoport undertook a comprehensive review of the supply-chain steps to reduce port dwell times. It adopted a "vehicle end-to-end approach" – including everything from ship discharge to vehicle dwell time and ground count reductions to rail transit improvements and dealer delivery. In providing for the dynamic and demanding global vehicle environment, these new processes have reduced vehicle port dwell times by 25 per cent since implementation, benefiting both manufacturers and consumers in terms of vehicle delivery and quality.

ASSEMBLY AND PARTS PLANTS
Car and truck models at CN-accessed assembly plants

Location	Manufacturer	Model
CANADA ONTARIO		
Oshawa	GM	Chevrolet Impala Chevrolet Camaro Chevrolet Equinox
Ingersoll	GM	Chevrolet Equinox GMC Terrain
Oakville	Ford	Ford Edge Ford Flex Lincoln MKX Lincoln MKT
Alliston	Honda	Acura CSX / MDX / ZDX Honda Civic
Cambridge	Toyota	Toyota Corolla Toyota Matrix Lexus RX350
Woodstock	Toyota	RAV4
UNITED STATES MICHIGAN		
Flint	GM	Chevrolet Silverado GMC Sierra
Detroit (Hamtramck)	GM	Cadillac DTS Buick Lucerne Chevrolet Volt
Orion	GM	Chevrolet Sonic Chevrolet Orlando Buick Verano
Lansing	GM	Cadillac CTS / STS

(Grand River Plant)		
Lansing (Delta Plant)	GM	Buick Enclave GMC Acadia Chevrolet Traverse
Rouge (Dearborn)	Ford	Ford F-150
Flat Rock (Auto Alliance)	Ford	Mustang Mazda6
MISSISSIPPI		
Canton	Nissan	Altima Armada Quest Titan

PETROLEUM & CHEMICALS

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PETROLEUM & CHEMICALS

OVERVIEW

CN’s Petroleum and chemicals commodity group is responsible for the movement of a wide range of commodities. CN ships petroleum products such as sulfur, crude oil, gasoline, ultra low sulfur diesel, jet fuel, asphalt, liquefied petroleum gases (LPG), alternative fuels, plastic pellets and feedstocks, petroleum and lubricant oil. On the chemicals side, CN handles a wide array of products, including sulfuric acid, caustic soda, pulp mill chemicals, methanol, salt, muriatic acid, industrial chemical gases, chlorine, ethylene glycol and insecticides.

Plastics, liquefied petroleum gas products (LPGs), petroleum products, and sulfur represented 64 per cent of the commodity group’s revenues in 2010, while chemicals made up the remaining 36 per cent. The primary markets for these commodities are within North America. As such, the performance of this commodity group is closely correlated with the North American economy. Most of the Company’s petroleum and chemicals shipments originate in the Louisiana petrochemical corridor between New Orleans and Baton Rouge; in northern Alberta, which is a major centre for natural gas feedstock and world-scale petrochemicals and plastics; and in eastern Canadian regional plants.

GULF OF MEXICO In the Gulf of Mexico, the Company benefits from access to the Louisiana petrochemical corridor, and port connections which enable customers to penetrate markets all over the U.S. and Canada. CN works closely with many waterborne freight terminal operators, facilitating the movement of imports and exports throughout North America.

PETROLEUM & CHEMICALS

NORTHERN AlBERTA In northern Alberta, CN serves the petroleum and gas industry in the heart of the oil sands area and connects to ports on the Pacific, Atlantic and Gulf coasts for offshore imports and exports. In addition to its role as Canada's major centre for natural gas, feedstock, petrochemicals and plastics, this area is also home to the oil sands development. The oil sands present exciting opportunities for outbound crude oil, ultra low sulfur diesel, and sulfur products as oil companies continue to increase development and production.

EASTERN CANADA In Eastern Canada, CN transports products from various regional plants to customers in Canada, the U.S., and overseas. CN is the major rail carrier serving the Sarnia, Ont. petrochemical cluster. Customers in this area of the network should benefit from the large Marcellus Shale gas supply, which is expected to provide long-term feedstock stability.

CN is also linked to various Western Canada oil and gas developments in British Columbia, Alberta, and Saskatchewan's Bakken Formation area. The Company's transload facilities are helping customers bring their product to market.

CARGOFLO® An extensive network of strategically located CargoFlo® facilities for liquid transfer and break-bulk needs complements CN's direct-rail franchise, enabling the Company to offer complete door-to-door service to customers. This network provides the economy of long-distance rail transportation with the flexibility of short-haul truck delivery anywhere in Canada, the U.S. and Mexico.

CN is also focused on the movement of ISO tank equipment on its Intermodal service. To complement ISO tank service, CN is also offering flexitank service, a special equipment for transportation of bulk cargoes, using

PETROLEUM & CHEMICALS

a standard 20-foot container. The Company works with its liquid shippers throughout its network for export and import to and from major markets such as South America and Asia.

REVIEW

For the year ended December 31, 2010, revenues for Petroleum and chemicals increased by $62 million, or five per cent, when compared to 2009. The increase was mainly due to increased shipments of chemical products, resulting from improvements in industrial production; increased shipments of sulfur and petroleum products; freight rate increases; and the impact of a higher fuel surcharge. These factors were partly offset by the negative translation impact of the stronger Canadian dollar.

For the first six months ended June 30, 2011, revenues for Petroleum and chemicals increased by $32 million, or five per cent, when compared to the same period in 2010. The increase was mainly due to the impact of a higher fuel surcharge; freight rate increases; and greater shipments of chemical products as a result of improvements in industrial production, and refined petroleum products. These factors were partly offset by the negative translation impact of the stronger Canadian dollar and lower condensate volumes.

OUTLOOK

The Alberta oil sands development continues to represent attractive growth opportunities for CN. Although some projects have been delayed over the last few years as a result of the global economic crisis in 2009, more favourable oil prices have put some of these projects back in the spotlight. CN continues to work closely with customers in Alberta to capitalize on oil- and gas-related opportunities. In particular, CN sees potential for the outbound movement of oil sands products such as bitumen and synthetic crude to refineries in the U.S. Gulf Coast region, or eventually through West Coast ports to offshore markets. CN's PipelineOnRail™ service offers shippers the ability to move oil sands products to market and use the same railcars to ship condensate to the oil sands. The concept is an attractive alternative to incremental pipeline capacity for shippers since it offers them destination options and volume flexibility, with little to no capital investment. In addition, CN is extending the PipelineOnRail™ service to the Bakken Formation oil reserves in southern Saskatchewan where there are significant opportunities for outbound shipments. CN can also supply chemicals required for well drilling and oil sands production.

CN also sees opportunities to capitalize on market-segment shifts. For example, as North American market production declines in certain chemical segments, and offshore imports fill the void, CN is well positioned on North America's three coasts to transport these imported products. Additionally, CN sees opportunities to benefit from shifts in the refined petroleum market, including additional opportunities to move jet fuel and diesel fuel.

PETROLEUM & CHEMICALS SPOTLIGHT

SERVICE TO THE OIL AND GAS INDUSTRY

OIL SANDS Canada's oil sands deposits in northern Alberta are second only to Saudi Arabia's reserves. In 2008, CN purchased the line that serves the oil sands region, extending its network up to Fort McMurray, Alta. The Company also spent a considerable amount of capital to upgrade the line. CN is well equipped to play a key role in the transportation, logistics, and transloading of steel, pipes, equipment, machinery, cement and other materials needed for oil sands infrastructure construction. These materials come from points throughout the vast CN network, and from overseas. There are other opportunities as well for CN, since materials and equipment are also needed for northern Alberta's industrial development and expansion of surrounding residential and commercial areas. CN is uniquely positioned to capitalize on these opportunities, with its Alberta main line rail network located further north in relation to the competition's.

Daily oil production is expected to more than double over the next 10 to 15 years. As bitumen shippers face the significant financial burden of supporting new pipeline construction, this is where CN comes in. CN's rail network is already in place – with no need for shippers to wait and little or no capital required. Since CN's pipeline runs on its rails, it is multi-directional with outstanding connectivity, reaching markets throughout Alberta, the rest of Canada, the U.S. Midwest, the Gulf Coast, and other export destinations. It is also scalable – with no minimum volume required. Shipment of bitumen by rail requires no blending with diluents, which can provide considerable savings compared to shipping by traditional pipeline. At the same time, while diluents will continue to be needed, CN will have the opportunity to ship bitumen to market and use the same railcars to bring diluent back to the oil sands area.

BAKKEN OIL The Bakken Formation is a production area located in southern Saskatchewan, and in Montana and North Dakota. It is an emerging market for CN. Since autumn 2010, the Company has been providing a direct truck-to-rail transportation solution for Bakken crude oil at Willmar, Sask., and is also looking at other CargoFlo® transload sites in Sasketchewan and Manitoba to support Bakken oil producers. CN's network reach gives crude producers and marketers access to the U.S. Gulf Coast, the U.S. Midwest, and Eastern and Western Canada.

It also provides them with access to the Alberta oil sands, where Bakken crude is being used as diluent for bitumen. CN has direct access to the Louisiana Gulf coast. Using its connections to rail interline partners or barge transportation connections, CN also has access to the Texas Gulf coast. CN offers a flexible, scalable solution, with assets and service to match the Bakken sector's evolving needs.

CN’S OIL & GAS FRANCHISE

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PETROLEUM & CHEMICALS SUPPLY-CHAIN INNOVATION

PRIVATE CAR PIPELINE MANAGEMENT

CN's private car pipeline management initiative is engineered to make the Company the carrier of choice for private car shippers. Private car pipeline management employs the same car-management principles and practices that CN uses with its own fleet. This initiative meets customers' needs while optimizing local service in conjunction with customers' operations, and by getting the most out of their railcar assets while they are on CN tracks.

CN is taking a more interactive approach with its private shipper customers to better link their daily demand with the flow of their private-car fleets – both loaded and empty. This approach includes:

- a complete supply-chain overview of customers' loaded and empty railcars;
- guidance regarding freight movements to enable rapid reaction to any supply-chain disruptions, and to avoid serving-yard congestion;
- and the provision of storage locations to prevent excess equipment accumulation and congestion in the Company's yards, and to enable the Company to respond quickly to customer demand surges or any empty-car supply-chain disruptions.

CN has tested this concept with customers on a pilot-project basis in the first half of 2011. Feedback has been very positive, with the Company meeting customer demand and helping its customers avoid any additional diversion- and storage-related expenses.

The ultimate goal is to synchronize the daily car supply with customers' plant operations for optimized railcar loading.

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METALS & MINERALS

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METALS & MINERALS

OVERVIEW

CN's Metals and minerals commodity group is involved in the transportation of non-ferrous base metals, concentrates, iron ore, steel, construction materials, machinery and dimensional (large) loads. The Company provides direct rail access to aluminum, base metals, steel, frac sand and iron ore-producing regions, which are among the most important in North America.

In 2010, steel accounted for 29 per cent of the commodity group’s revenues; construction materials, 23 per cent; non-ferrous metals and concentrates, 21 per cent; iron ore, 20 per cent; and machinery and dimensional loads, seven per cent.

CN serves customers that are leaders in all areas of the metals and minerals sector. CN’s far-reaching rail service and its transload and port facilities have made the Company a leader in the transportation of copper, lead, zinc, concentrates, iron ore, refined metals and aluminum.

CN’s available capacity and its unique ability to provide consistent and reliable service put the Company in an enviable position for the conversion of truck traffic to rail. Base metals mining, oil sands initiatives, shale gas development and the recovery of the steel industry are the key growth drivers for the Metals and minerals group. Mining activities drive shipments of concentrates, metals and machinery. Oil-and-gas developments drive shipments of pipes, structural steel, frac sand, cement and dimensional loads.

REVIEW

For the year ended December 31, 2010, revenues for Metals and minerals increased by $133 million, or 18 per cent, when compared to 2009. The increase was mainly due to the continual improvement in the steel industry, which resulted in greater shipments of steel products and iron ore; stronger volumes of construction materials; and the impact of a higher fuel surcharge. These factors were partly offset by the negative translation impact of the stronger Canadian dollar.

METALS & MINERALS

For the first six months of 2011, revenues for this commodity group increased by $34 million or eight per cent. The increase was mainly due to higher shipments of steel-related products, nonferrous ore, frac sand and pipes; freight rate increases; and the impact of a higher fuel surcharge. These gains were partly offset by the negative translation impact of the stronger Canadian dollar and reduced volumes of nonferrous metals.

OUTLOOK

The Metals and minerals commodity group is well positioned to deliver good performance when North American and global economic conditions gather momentum. Long-term energy-related development including oil and gas pipeline projects, will benefit markets such as steel pipes, frac sand and dimensional loads. Wind farm developments are expected to continue to increase and rail transport will remain an important player. The steel industry, which has experienced major consolidations over the years, should benefit from increased North American steel consumption, CN’s vast network of

METALS & MINERALS

	metals transload facilities and the addition of more than 400 new coil cars and close to 800 new gondola cars since 2010. The late 2010 opening of a new iron nugget plant on CN lines in Minnesota is expected to contribute to growth. In addition, CN is renewing its ore fleet with approximately 700 new cars coming on line in 2010 and 2011. The construction segment is forecasted to benefit from public and private infrastructure spending.
IRON NUGGETS	CN’s new, more flexible car ordering system will provide a more truck-like service offering. This new system is complemented by strategic positioning of empty cars close to the market. The Company is well positioned to capitalize on new opportunities, thanks to its newly expanded network of rail-to-truck transload facilities, the recent expansion of its gondola and coil railcar fleet, plus its ability to provide consistent and reliable service.

METALS & MINERALS

FRAC SAND – CN HAS THE RIGHT CONNECTION

With growing demand for cleaner sources of energy, shale gas is likely to emerge as a leading choice to meet North America's future energy needs. The shift to more horizontal wells and multistage hydraulic fracturing techniques, which require large volumes of frac sand has made shale plays in the United States and Canada economically viable and attractive to investors.

Frac sand is used in the fracking process to hold shale fractures open and let natural gas and oil flow. To achieve the best efficiencies, the sand must be strong, chemically inert, round and permeable. With quartz sand deposits that formed from a shallow ocean which encompassed the region 500 million years ago, western Wisconsin has sand that is perfect for fracking.

One of CN's main initiatives in developing its frac sand business is to create the right supply-chain connection between producers in Wisconsin and Canadian oil and gas shales in British Columbia, Alberta and Saskatchewan, and others in the U.S.

CN is the only railroad with direct access to the North East B.C. shales. Further driving the activity in B.C. is a new liquefied natural gas (LNG) terminal planned for Kitimat and the Alberta oil sands, where natural gas is used to extract bitumen. The new LNG terminal is expected to open the shales to global market forces in the long term.

Rapid development in the shale gas sector in both Canada and the U.S. is generating huge demand for frac sand which adds up to more than 30,000 potential carloads a year for the Company.

SHALE GAS EXPLORATION AND
FRAC SANDS DEPOSIT SOURCES

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METALS & MINERALS

CHICAGO METALS TRANSLOAD FACILITY

In November 2010, CN and North America Stevedoring Company, LLC (NASCO) announced the construction of a new multi-modal steel transloading facility in Chicago, the North American hub for steel transportation.

The new facility is located at the Port of Chicago on 190 acres of land adjacent to CN's Kirk Yard and Interstate 90, roughly 13 miles south of downtown Chicago. It offers producers multi-modal transportation options by rail, truck, intermodal container, inland barge and ocean-going vessel for steel products, aluminum as well as dimensional loads and heavy equipment.

The Chicago Metals & Minerals Transload facility gives both CN and NASCO a strong foothold in the most important steel market in North America. Approximately half of the steel production and consumption on the continent takes place within a 300-mile radius of Chicago. Innovative and efficient facilities are critical to the industry.

CN serves the facility directly, tying it into its North American rail network reaching the Atlantic, Gulf and Pacific coasts. Together with NASCO, CN offers the steel industry new transportation options to tap regional and North American markets and new port gateways for imported and exported steel. The facility improves supply-chain efficiencies for the steel industry and enhances CN's and NASCO's competitiveness in important steel markets.

The new Chicago metals transload facility is part of a series of CN supply-chain initiatives aimed at positioning the Company to better serve its steel customers and grow its steel business. CN has also established strategic car-staging locations near producer facilities, allowing it to respond quickly to steelmakers' spot-sales requirements. One staging location is at Sorel-Tracy, Que., northeast of Montreal, the other at Paris, Ont., located west of Hamilton.

METALS TRANSLOAD FACILITIES

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SUSTAINABILITY

Environment
Safety
Regulation

ENVIRONMENT

TAKING ACTION TO PROTECT THE ENVIRONMENT

CN continues to deepen its commitment to environmental initiatives. The Company believes that the rail mode's environmental and economic advantages position it as an integral part of efforts to meet challenges such as pollution prevention, greenhouse gas (GHG) emission reduction, and natural resource conservation.

In 2010, the Company had some notable achievements on the environmental front.

- CN scored 82 per cent on the environmental dimension of the Dow Jones Sustainability Index;
- The Company identified a large number of environmental projects in its Sustainability Action Plan;
- It also extended its commitments to carbon-footprint reduction beyond rail operations to other fleet operations and buildings;
- CN received an environmental award from the Railway Association of Canada for its development of a walleye-spawning ground at the Reservoir Blanc, La Tuque, Que.

CN's environment policy covers various aspects of the life cycle of its activities, and is the platform for its environmental strategy and Sustainable Action Plan. The Company combines its expert resources, environmental management procedures, training and audits for employees and contractors, and emergency preparedness response activities to help ensure that it conducts its operations and activities while protecting the natural environment.

CARBON FOOTPRINT REDUCTION

Rail outperforms all other ground transportation modes for hauling large volumes of high-density freight over long distances. The rail mode also relieves traffic congestion and reduces stress on strained public infrastructure. CN focuses on the reduction of its carbon footprint, which includes emissions from locomotives, and non-rail vehicles such as shunt trucks and cranes ("other fleets") used in its Intermodal yards. Locomotives account for an estimated 85 per cent of CN's GHG emissions. Buildings account for another seven per cent, with vehicle and vessel fleets emitting the remaining eight per cent.

Efficiency and emission reduction have always been an integral part of CN's operations – consistent with the Company's Precision Railroading approach.

ENVIRONMENT

RAIL AND YARD OPERATIONS Emission reduction in this area is a top priority, since it accounts for more than three-quarters of the Company's GHGs. Over the years, CN's asset-lean Precision Railroading initiatives, fuel-efficient locomotive acquisitions and locomotive technology upgrades, innovative yard efficiencies and focused fuel-conservation practices have all contributed to the reduction of the Company's carbon footprint. In 2010, CN acquired 102 new locomotives that are 15-20 per cent more fuel efficient and 102 fuel-efficient second-hand GE Dash 8 locomotives.

In addition to its locomotive fleet acquisitions and upgrades, CN works with manufacturers and research centres to support the development of cleaner rail technologies. The Company is currently investing $1 million in research into next-generation locomotives using GenSets and alternative fuels.

CN's SmartYard initiative is increasing the flexibility and efficiency of traditional switching practices at the Company's largest yards.

The Company's crews also receive training regarding better fuel-conservation practices, such as: locomotive shutdowns in yards, streamlined railcar handling, coasting and braking strategies, and notch limiting when maximum power is not required.

BUILDING OPERATIONS The carbon footprint from CN's building operations includes consumption of electricity and miscellaneous fuels – propane, stove oil, natural gas, furnace oil and kerosene. The Company is developing a more accurate energy-consumption measurement system. Data gathered will be analyzed and used to set reduction targets for 2015. In the meantime, CN continues to identify energy consumption reduction opportunities. Over the past few years, the Company has focused efforts on upgrading efficiency within existing buildings and yards, incorporating green designs into new buildings and yards, and creating greener IT systems.

OTHER FLEET – Intermodal trucks and other Company vehicles account for about eight per cent of GHG emissions at CN. The Company is extending its Precision Railroading-based operational excellence to the other vehicles it operates in its day-to-day business. Initiatives in this area include trucking fleet specifications for aerodynamic design packages, and engine size and weight for fuel efficiency. CN also provides subsidies to truck owner-operators as an incentive to upgrade older models for greater fuel efficiency. The Company also focuses on preventive maintenance, route optimization and operator training for truck owner-operators.

CN's On Company Service (OCS) fleet includes cars, light-duty trucks, and specialized heavy-duty trucks. The Company's vehicle-replacement program provides for the purchase of state-of-the-art, fuel-efficient vehicles, including hybrids. CN also trains crews to reduce unnecessary vehicle idling, speeding, and insufficient utilization.

ENVIRONMENT

OTHER STRATEGIC INITIATIVES

CN constantly pursues the development of service and productivity initiatives. A focus on network velocity, train efficiency, first-mile/last-mile reliability and safety enables the Company to accommodate volume growth at low incremental cost, while maintaining a high service level for customers. Over the last five years, CN has spent almost $8 billion on capital improvements. This investment includes rail, tie and other track material replacement; and rail-line and bridge improvements. Efficient and reliable infrastructure is essential.

Innovative supply-chain solutions help to drive a lower carbon economy, and increase awareness among shippers of the strong environmental benefits of shipping by rail. CN offers a number of solutions to customers to help reduce the carbon footprint, including: modal shift protocol tools for calculating carbon credits resulting from switching from truck to rail; the shortest, most efficient routing; and other customer-centric innovations.

The Company is also growing its business to support clean energy markets. CN and its customers are capitalizing on increased opportunities in the sustainable energy sector. These include movements of biodiesel, wood pellets, and equipment related to cleaner technologies, such as wind turbines and solar panel components.

CN works together with its stakeholders to identify and implement solutions, and to reduce the supply chain’s carbon footprint. The Company increases customers’ awareness of government incentives to opt for rail-freight solutions. CN is also engaging governments in adopting the modal shift protocol throughout North America, and supporting customers in their use of the protocol. The protocol has been adopted by the provinces of Alberta and British Columbia. Customers in these provinces are eligible to receive offset credits which may be used to meet emission reduction goals, traded to other regulated emitters to help them achieve required reductions, or banked for future use. Employees are also engaged and encouraged to support sustainability efforts.

The Company is a signatory to the U.S. SmartWay Agreement, a voluntary program between the U.S. Environmental Protection Agency (EPA) and the rail industry. Its goal is the elimination of 33 to 60 million metric tons of carbon dioxide and up to 200,000 tons of nitrogen oxide emissions by 2012.

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Explanation of Responses:

SAFETY

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Explanation of Responses: 36

SAFETY

PUTTING SAFETY FIRST

At CN, safety is a core value that is integrated in all railroad activities. CN's commitment is to safeguard employees and assets, customers, the community, and the environment at all times. The Company is devoted to the provision of proper training, procedures and tools to ensure a safe and secure working environment that minimizes the risk of injury or accident, and delivers customers' shipments damage-free.

CN's safety focus has helped the Company to rank consistently among the safest railroads in North America. The Company works closely with federal, provincial and state agencies to meet safety standards and environmental regulations. CN also partners with municipalities to integrate their safety procedures with the Company's own procedures.

Safety highlights for 2010 include:

- a reduction in FRA injury and accident rates;
- an increase in risk assessments and sharing of best practices;
- an expansion in the use of audits to assess compliance with operating rules and with CN's Safety Management System and safety culture – an industry first.

SAFETY MANAGEMENT SYSTEM (SMS)

CN continues to make important progress in the delivery of its Safety Management Plan, and in the improvement of its safety culture. Each year, the Company invests a significant percentage of revenues in safety training, technology and infrastructure – to ensure a safe and secure working environment, and to deliver customers' shipments damage-free.

The Company's Safety Management System is a proactive, comprehensive program designed to minimize risk and drive continuous improvement in the reduction of injuries and accidents in day-to-day operations. SMS focuses on four areas: People, Process, Technology and Investment.

SAFETY

PEOPLE

CN works hard to create a safe workplace by fostering a culture of safety awareness and safe practices. The Company invests significantly in training, coaching, recognition and employee involvement initiatives to strengthen its safety culture, knowledge and awareness.

The Company has implemented multiple programs focused on peer-to-peer coaching, and two-way dialogue between supervisors and employees to clarify expectations regarding safe behaviours.

Employee involvement, a fundamental part of SMS, is achieved through a number of initiatives, including “SaFE” programs, involving employees in peer-to-peer observations and coaching regarding critical activities, “Safety Summits,” and annual SMS conferences.

CN’s nearly 100 joint union-management committees in Canada and the U.S. help the Company to identify top causes of injuries and accidents, and implement solutions locally. Several years ago, CN instituted a process to strengthen the effectiveness of these committees.

TECHNOLOGY AND INVESTMENT

CN is committed to investment in infrastructure and technology to maintain a safe railroad and to improve reliability for its customers. The Company has the highest capital-investment ratio in the industry for Class I railroads. In 2010, CN invested approximately $1.7 billion in capital programs, of which approximately $1 billion was dedicated to track infrastructure and other initiatives to operate a safe railroad and to improve the productivity and fluidity of its network. In 2011, the Company plans again to invest $1.7 billion in capital expenditures.

PROCESS

Process initiatives aim to make safety a systematic part of all railroad activities. The Company is focusing its efforts on the top causes of accidents and injuries.

CN has developed a process to conduct risk assessments in a structured manner. Assessments are conducted throughout the year with the involvement of health and safety committees, and are made available company-wide through CN’s intranet site.

Based on the leading root causes of accidents and injuries, CN develops and prioritizes plans to address top safety issues with quantified targets at all levels of the Company.

A critical part of any safety plan is knowledge about what to do when things go wrong. CN’s Emergency Response Plan (ERP) ensures that there is an immediate, coordinated response to deal with incidents quickly, safely and effectively. Every year, the Company’s Dangerous Goods group takes steps to enhance CN’s level of emergency

preparedness and system protection.

CN’s comprehensive Security Management Plan provides a structured risk-based approach to network security management. Its key components include threat and vulnerability assessments of critical infrastructure, security alerts and countermeasures.

SAFETY

CN Police officers in the U.S. and Canada protect customer goods, prevent and investigate crime, and ensure the safety and integrity of the Company's facilities, equipment and property. They are also actively involved in rail safety-education initiatives in communities across the CN network.

The Company continues to make considerable investments in technology and infrastructure protection to help safeguard its people, its assets, and customers' shipments. Surveillance at all major CN yards and terminals continues to increase with the addition of technology-based security measures.

LEADERSHIP IN SAFETY

PARTNERS IN RESPONSIBLE CARE ® CN is a partner in Responsible Care® in Canada and the U.S. This ongoing performance-improvement initiative was established by the Canadian Chemical Producers' Association (CCPA) and the American Chemistry Council (ACC).

DANGEROUS GOODS AND EMERGENCY RESPONSE In 2009 and 2010, the Dangerous Goods team further enhanced and implemented safety programs: multiple joint audits and inspections, a Tank Car Specialist Training Course for emergency responders from various communities, an Emergency Response Plan review in conjunction with various stakeholders, and the development of an enhanced Incident Notification Process.

CUSTOMER ENGAGEMENT Customers who own or lease sidings or load and unload railroad equipment have a direct effect on CN's safety performance. The Company works closely with these customers to share best practices in conducting safe railroad operations. CN's Railroad Customer Safety Handbook raises awareness of key safety issues and the many ways customers can enhance the safety of their operations.

WORKING TOGETHER WITH GOVERNMENT

CN's rail operations are subject to economic, safety and security regulation in Canada and the United States. The Company's rail operations in Canada are subject to economic regulation by the Canadian Transportation Agency (the Agency) under the Canada Transportation Act (the CTA), and safety regulation by the federal Minister of Transport under the Railway Safety Act and certain other statutes. The Company's U.S. rail operations are subject to economic regulation by the Surface Transportation Board (STB) and safety regulation by the Federal Railroad Administration (FRA).

ECONOMIC REGULATION
CANADA

The CTA provides rate and service remedies, including final offer arbitration (FOA), competitive line rates and compulsory inter-switching. In addition, various Company business transactions must gain prior regulatory approval, with attendant risks and uncertainties. On August 12, 2008, Transport Canada announced the Terms of Reference for the Rail Freight Service Review to examine the services offered by CN and CP to Canadian shippers and customers. The review was conducted in two phases. Phase 1 consisted of analytical work to achieve a better understanding of the state of rail service. Phase 2 commenced on September 23, 2009 with the appointment of a panel to develop recommendations in consultation with stakeholders. Approximately 110 public submissions were made, including three from CN, in response to the panel's invitation to all interested parties to provide written submissions. The panel issued an interim report on October 8, 2010, and filed its final report and recommendations with the Minister of Transport and Infrastructure in December 2010. This report, which was released to the public on March 18, 2011, recommends streamlined commercial dispute resolution, the establishment of service level agreements with customers, and public reporting of various system metrics amongst other recommendations. The Government of Canada accepted the panel's report and announced that it intended to implement certain steps to improve the entire rail supply chain, including tabling legislation to give shippers the right to a service agreement. To date, the Government has introduced no new legislation.

REGULATION

U.S.

The STB serves as both an adjudicatory and regulatory body and has jurisdiction over railroad rate and service issues and rail restructuring transactions such as mergers, line sales, line construction and line abandonments. As such, various Company business transactions must gain prior regulatory approval, with attendant risks and uncertainties.

The STB has undertaken proceedings in a number of areas in recent years, on issues including fuel surcharges assessed by rail carriers, including the Company and the majority of other large railroads operating within the U.S.; dispute resolution procedures for medium-sized and smaller rate disputes; and the methodology for calculating the cost of equity component of the industry cost of capital that is used in various regulatory proceedings. The STB has been examining in 2011 the commodities and forms of service currently exempt from STB regulation and the liability of third parties for rail car demurrage. On June 22 – 23, 2011, the STB held a hearing on the current state of competition in the railroad industry. The STB will be considering the comments and may take further action.

The U.S. Congress has had under consideration for several years various pieces of legislation that would increase federal economic regulation of the railroad industry. Broad legislation to modify the system of economic regulation of the rail industry (S. 158) and legislation to repeal the rail industry's limited antitrust exemptions (S. 49) have been introduced in 2011 in the Senate. S. 49 has also been approved by the Senate Judiciary Committee and there is no assurance that this or similar legislation will not progress through the legislative process.

The Company's ownership of the former Great Lakes Transportation vessels is subject to regulation by the U.S. Coast Guard and the Department of Transportation, Maritime Administration, which regulate the ownership and operation of vessels operating on the Great Lakes and in U.S. coastal waters. The Environmental Protection Agency (EPA) also has authority to regulate air emissions from these vessels. On August 28, 2009 the U.S. Coast Guard proposed to amend its regulations on ballast water management; the Company's U.S.-flag vessel operator is participating in this rulemaking proceeding.

SAFETY REGULATION
CANADA

Rail safety regulation in Canada is the responsibility of Transport Canada, which administers the Canadian Railway Safety Act, as well as the rail portions of other safety-related statutes. The following actions have been taken by the federal government:

- In 2008, a full review of the Railway Safety Act was conducted by the Railway Safety Act Review Panel (Review Panel) and their report was tabled in the House of Commons. The Report includes more than 50 recommendations to improve rail safety in Canada but concludes that the current framework of the Railway Safety Act is sound.

- On June 4, 2010, the Minister of Transport tabled Bill C-33 proposing a number of amendments to the Railway Safety Act addressing the recommendations made by the Review Panel. The Committee had completed its study of Bill C-33, but the Bill died on the Order Paper when Parliament was dissolved in March 2011. On October 6, 2011, the government tabled Bill S-4 which includes essentially the same provisions as those that were in Bill C-33.

U.S.

Rail safety regulation in the U.S. is the responsibility of the FRA, which administers the Federal Railroad Safety Act, as well as the rail portions of other safety statutes. In 2008, the U.S. federal government enacted legislation reauthorizing the Federal Railroad Safety Act. This legislation covers a broad range of safety issues, including fatigue management, positive train control (PTC), grade crossings, bridge safety, and other matters. The legislation requires all Class I railroads and intercity passenger and commuter railroads to implement a PTC system by December 31, 2015 on mainline track where intercity passenger railroads and commuter railroads operate and where toxic-by-inhalation hazardous materials are transported. PTC is a collision avoidance technology intended to override locomotive controls and stop a train before an accident. The Company is taking steps to ensure implementation in accordance with the new law, including working with other Class I railroads to satisfy the requirements for U.S. network interoperability. The Company’s PTC Implementation Plan, submitted in April 2010, has been approved by the FRA. Implementation costs associated with PTC are estimated to be approximately US$220M million over the span of the entire project. The legislation also caps the number of on-duty and limbo time hours for certain rail employees on a monthly basis. The Company is taking appropriate steps and working with the FRA to ensure that its operations conform to the law’s requirements.

REGULATION

SECURITY

The Company is subject to statutory and regulatory directives in the United States addressing homeland security concerns.

In Canada, the Company is subject to regulation by the Canada Border Services Agency (CBSA).

In the U.S., safety matters related to security are overseen by the Transportation Security Administration (TSA), which is part of the U.S. Department of Homeland Security (DHS) and the Pipeline and Hazardous Materials Safety Administration (PHMSA), which, like the FRA, is part of the U.S. Department of Transportation. Border security falls under the jurisdiction of U.S. Customs and Border protection (CBP), which is part of the DHS.

More specifically, the Company is subject to:

- Border security arrangements, pursuant to an agreement the Company and CP entered into with the CBP and the CBSA.

- The CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) program and designation as a low-risk carrier under CBSA's Customs Self-Assessment (CSA) program.

- Regulations imposed by the CBP requiring advance notification by all modes of transportation for all shipments into the United States. The CBSA is also working on similar requirements for Canada-bound traffic.

- Inspection for imported fruits and vegetables grown in Canada and the agricultural quarantine and inspection (AQI) user fee for all traffic entering the U.S. from Canada.

The Company has worked with the Association of American Railroads to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts by state and local governments seeking to restrict the routings of certain hazardous materials. If such state and local routing restrictions were to go into force, they would be likely to add to security concerns by foreclosing the Company's most optimal and secure transportation routes, leading to increased yard handling, longer hauls, and the transfer of traffic to lines less suitable for moving hazardous materials, while also infringing upon the exclusive and uniform federal oversight over railroad security matters.

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MANAGING ENERGY COST

FUEL SURCHARGES

In 2010, CN's fuel expense exceeded $1 billion, making up a significant component of the Company's total operating expenses. In order to reduce the exposure to fuel-price volatility, CN relies on its cost-recovery fuel surcharge program. CN applies the fuel surcharge universally across its customer base, and has one of the industry's highest coverage levels at close to 90 per cent. The remaining 10 per cent is covered under Rail Cost Adjustment Factor (RCAF) and Canadian regulated grain tariffs which both have a fuel component.

CN 7400/7401

CN first implemented its fuel surcharge program in 2001 with the introduction of tariff CN 7400, a percentage-based fuel surcharge program linked to West Texas Intermediate (WTI) crude oil price fluctuations. As the price of oil escalated, the Company introduced a new, more comprehensive fuel surcharge, tariff CN 7401, on April 1, 2005. CN proactively reduced the 7401 surcharge twice over the following years.

CN 7402

In January 2007, the U.S. Surface Transportation Board (STB) concluded its review of railroad fuel surcharge practices and issued a final ruling. The STB directed rail carriers to adjust their fuel surcharge programs on a basis more closely related to the amount of fuel consumed on individual shipments.

As a result of the STB decision, CN introduced a new mileage-based fuel surcharge, tariff CN 7402, on April 26, 2007. CN 7402 is based on the average price of the Energy Information Administration (EIA) U.S. No. 2 Diesel Retail Sales by all Sellers (cents per U.S. gallon) On-Highway Diesel Fuel (HDF) with an effective strike price of US$1.25.

CN 7402 is applied on traffic moving under tariffs, with the general exception of containers, trailers, and finished vehicles, which continued to be subject to CN 7401; and on traffic moving under contract at the time of individual contract renewal.

For simplicity, the CN 7402 tariff varied based on the two following types of commodities moved:

- Bulk commodities: coal, fertilizer, and grain;
- All other carload commodities.

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Explanation of Responses:

CN 7403

Effective April 1, 2008, CN began offering customers a new fuel surcharge option, CN 7403, similar to CN 7402, but with an effective strike price rebased to a more current fuel level: from US$1.25 HDF (per CN 7402) to US$2.30 HDF. All public prices were rebased to use CN 7403 effective April 1, 2008.

Similar to the CN 7402 tariff, CN 7403 varies based on the two following types of commodities moved:

- Bulk commodities: coal, fertilizer, and grain;
- All other carload commodities.

CN 7403 is applied on traffic moving under tariffs, with the general exception of containers and trailers which continue to be subject to CN 7401.

Calculated monthly, the surcharge is based on the second calendar month prior to the month in which the surcharge is applied, so as to meet the Canadian and U.S. legal requirements for notification. For example, the surcharge in April was calculated on the average HDF price for February.

The fuel price range in CN 7403 is in three-cent (U.S.) increments, allowing it to closely track HDF price fluctuations. For CN customers who are invoiced in Canadian dollars, the U.S. On-Highway Diesel surcharge is converted to Canadian currency based on the Bank of Canada monthly average exchange rate for U.S. funds. For example, the fuel surcharge in April was calculated on the average HDF price for February, and multiplied by the average exchange rate for February.

MANAGING ENERGY COST

CN MONTHLY FUEL SURCHARGE PROGRAMS

CN 7400	Percentage-based	West Texas Intermediate (WTI)	October 1, 2001
CN 7401	Percentage-based	West Texas Intermediate (WTI)	April 1, 2005
CN 7402	Mileage-based	On-Highway Diesel Fuel (HDF)	April 26, 2007
CN 7403	Mileage-based	On-Highway Diesel Fuel (HDF)	April 1, 2008

For the most up-to-date information on CN's fuel surcharge program, please consult the CN Web site: www.cn.ca/fuelsurcharge

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CAPITAL EXPENDITURES

CN's capital spending program is critical in the achievement of safety, profitable growth and service objectives. In the last five years, CN spent almost $8 billion on capital improvements. Such investments serve to build a quality network that, in turn, helps CN customers grow in their own markets and supports economic growth across Canada and the United States. In 2010, CN's capital expenditures, including capital leases, amounted to $1.718 billion.

TRACK AND ROADWAY CAPITAL

In 2010, CN invested approximately $1 billion on track infrastructure. This includes the replacement of rail, ties and other track materials, as well as bridge improvements. This serves to preserve the quality and integrity of the plant and to provide safe and reliable service to customers across Canada and the U.S. Also included is capital to enhance the capacity and fluidity of the network.

In CN's Western Region, the Company spent roughly $400 million on rail infrastructure projects, including extended sidings as well as the upgrade in 2010 of the Athabasca Northern Railway (ANY), acquired in 2007.

In each of the Eastern and Southern regions, CN spent close to $300 million on rail infrastructure. Southern Region expenditures include infrastructure improvements along the Elgin, Joliet and Eastern Railway Company (EJ&E), acquired in 2009.

GROWTH AND OTHER CAPITAL

In 2010, CN invested close to $700 million in growth initiatives as well as in rolling stock and information technology.

CN's investment in rolling stock exceeded $400 million in 2010 as the Company took advantage of its strong cash generation to accelerate the fleet renewal for locomotives and selected car categories. This amount includes approximately $300 million on locomotives and $100 million for its car fleets. The Company continued its locomotive fleet modernization program, with the acquisition of 102 new high-horsepower fuel-efficient units and ongoing locomotive overhauls. CN also acquired approximately 450 new ore cars.

CN spent approximately $100 million on information and communications technology in 2010 to improve operational efficiency, reliability and customer service. The Company also invested in transload facilities, distribution centres and build-ins to grow its business.

CAPITAL EXPENDITURES

2011 CAPITAL PLAN

For 2011, CN expects to invest approximately $1.7 billion, similar to the amount spent in 2010. Approximately $1 billion of CN's 2011 capital-investment program will be again targeted for track infrastructure to maintain safe railway operations and to improve the productivity and fluidity of its rail network, including rail-line improvements on the EJ&E. This amount also includes funds for strategic initiatives and additional enhancements to the track infrastructure in Western and Eastern Canada.

In all, CN expects to invest approximately $700 million in growth-related projects and other capital in 2011.

CN's equipment spending, targeted to reach approximately $200 million in 2011, is intended to improve the quality of the fleet to meet customer requirements, and includes the acquisition of 12 new high-horsepower locomotives.

The Company will continue its iron ore fleet refurbishment program, with nearly 250 new ore cars to be added in 2011 for transporting pelletized iron ore produced in the U.S. Upper Midwest.

CN also expects to spend approximately $500 million on facilities to grow its business, including transload facilities and distribution centres to serve off-line customers; new information technology to support operational and service excellence; and other projects to increase productivity. In particular, CN will invest in a new logistics park proposed for Conrich, Alta., located in Rocky View County northeast of Calgary, as well as in the expansion of its Kirk Yard in Gary, Ind.

Implementation costs associated with the U.S. federal government legislative requirement to implement positive train control (PTC) by 2015 will amount to about US$21 million in 2011, and approximately US$220 million over the span of the entire project.

CAPITAL EXPENDITURES SPOTLIGHT

SMART LOCOMOTIVE FLEET INVESTMENT

CN operates a fleet of approximately 1,900 locomotives with an average age of about 24 years. In 2010, the Company acquired 102 new locomotives, its largest acquisition of this kind in more than a decade. Since 2005, the Company has purchased more than 300 new locomotives, the vast majority of which are distributed power (DP)-equipped. These new locomotives enable the Company to meet the regulatory obligations of U.S. Environmental Protection Agency (EPA) Tier 2 exhaust emission standards, and are up to 20 per cent more fuel-efficient, producing 40 per cent less nitrogen oxides. In 2010, CN also purchased 102 fuel-efficient, second-hand GE Dash 8 locomotives, at one-third the price of new units.

CN will continue to make smart locomotive-fleet investments to comply with new EPA Tier 3 and Tier 4 regulations that will take effect in 2012 and 2015 respectively. CN's medium-term plans call for a reduction in its overall locomotive fleet – a net decrease of close to 200 units, with a simultaneous increase in its high-horsepower locomotive fleet. Plan implementation will see the expected average age of the fleet decline to about 23 years. The expected average age of the high-horsepower fleet will be around 10 to 11 years.

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TECHNOLOGY INITIATIVES

TECHNOLOGY INITIATIVES TO SUPPORT THE BUSINESS

CN’s strategic investments in information technology over the past decade have been instrumental in supporting Precision Railroading. Access to timely and accurate information provides a critical foundation for the Company’s ongoing efforts to drive innovation and efficiency in service, cost control, asset utilization, safety and employee engagement.

Looking ahead, asset telemetry, wireless communications, and the next generation of business intelligence solutions are creating new opportunities to advance CN’s agenda of operational and service excellence. Improving mobile access to information and expanding the visibility of real-time data will enable CN to take an increasingly proactive approach to decision making, boosting the Company’s efficiency and enhancing the consistency and reliability of service to its customers.

SERVICE RELIABILITY STRATEGY (SRS)

In the mid-1990s, CN’s transportation operating systems provided only local information and were written in a programming language that was no longer supportable. To realize its vision of becoming a scheduled railroad, CN needed a system that could provide visibility to the entire network and would enable the management of trip plans for every railcar and container on its network. SRS provided the required leap forward in processes and technology.

SRS is an integrated relational database system that manages all aspects of rail service delivery, customer orders and waybills, rail pickup and delivery, yard and train operations, and integration with Intermodal terminal operations. SRS provides global visibility to the entire network and allows CN to manage detailed trip plans for every customer shipment, rather than simply running trains once they are full. The implementation of these systems helped CN through a period of downsizing, while dramatically improving service.

SAP

In 1998, CN began implementation of the SAP suite of back-office systems in order to improve the integration of cross-functional financial and operational data, as well as the management of the Company’s assets.

Over the past 10 or so years, SAP implementations have replaced 250 legacy systems with a single, integrated platform. The integration of SAP with the Company’s operating systems has also generated significant value in CN’s mergers and acquisitions, enabling rapid, seamless integration of people, processes and information.

Following the success of the SAP back-office systems, CN began implementing SAP for the management of operational assets and processes including: locomotives, railcars, work equipment, repair shops, freight claims, safety, non-freight receivables, signals and communications, bridges and structures, engineering inventory and track maintenance.

TECHNOLOGY INITIATIVES

DATACITY

DataCity, built on top of the Company's core systems, provides a single source of management information for decision-making in all aspects of the Company's operations. DataCity is an internal Web-based portal providing access to over 200 reports and key performance indicators based on the previous day's data from more than 20 transactional systems. The definition, source data, business rules and ownership of each measure are clearly defined and agreed upon across the Company. There are measures for marketing, customers, all aspects of operations and service performance, as well as performance reports on profitability, financials, engineering, mechanical, people, legal, regulatory and safety.

SMARTYARD

Anyone familiar with railroading knows that managing a rail yard is a complex task. Coordinating the activities of multiple departments while assembling and clearing trains on time is a key element of efficient asset utilization. CN developed SmartYard to make decision making easier and more effective.

SmartYard takes information from SRS and other existing CN systems and combines the data, and then provides the best sequence for processing cars. It continuously adjusts to the constantly changing conditions of yard inventory and the main line network using preset parameters. It then predicts when processes associated with classification and train make-up will start and end. When the start or end time of a process conflicts with, or does not support the yard's overall plan, alerts are displayed. Coupled with users' practical knowledge, SmartYard assists CN's yard employees in making better decisions by helping them to anticipate and react to changing yard conditions.

SmartYard also provides yard personnel with powerful planning capabilities and an integrated view across all functions including: mechanical, transportation, motive power and crew. With increased efficiencies, more predictability and better communication, SmartYard lowers dwell time and increases the speed at which cars are processed. It also allows CN to handle increasing volumes of traffic through its yards without additional capital investment in the physical plant.

SmartYard deployment continues across the CN network, and new capabilities are being added to improve productivity. The latest enhancements provide transportation officers with tools to forecast outbound trains at car level and to identify high-priority traffic that "must go" on the train. This information is fed to SRS, thereby eliminating the need for transportation officers to update two systems. The forecast is later used by the yardmaster to execute the switch plan in accordance with the forecast. Yardmasters also use SmartYard to generate switch lists for crews and to update SRS with the new car locations once the switch moves are completed by the crews.

PRECISION ENGINEERING

Precision Engineering takes the enormous volume and complexity of asset and inspection information as well as regulatory compliance rules, and presents track inspectors, supervisors and foremen with an intuitive, GPS-enabled interface for planning and reporting all defects, inspections and maintenance work performed.

TECHNOLOGY INITIATIVES

Since many engineering employees work in remote trackside locations, without connectivity to the Company's network, Precision Engineering is specifically designed to function in disconnected mode, with capabilities to synchronize with the network once connectivity is possible.

This state-of-the-art solution sets new standards for the timeliness, accuracy and efficiency of regulatory compliance, provides important support to the Company's safety performance, and gives improved visibility to the hundreds of millions of dollars spent on engineering maintenance.

Precision Engineering is helping CN to manage engineering processes more efficiently, reduce engineering-related delays to trains, improve labour efficiency as a result of better information availability, and increase material and machine utilization.

TRANSPORTATION RENEWAL PROGRAM

CN continues to make strategic investments in core operational systems through the Transportation Renewal program. In early 2009, CN replaced its 30-year-old legacy motive power assignment system with a new Locomotive Management System (LMS), leveraging Web and previous SAP investments.

The Company has deployed an automated system for inbound and outbound calling of crews. It uses a voice-recognition system to increase efficiency and improves the flow of information to and from employees.

In parallel, CN has designed iCrew, a replacement for CN's 20-year-old mainframe crew assignment and timekeeping system (CATS). iCrew leverages SAP technologies and skills, providing CN operations with the ability to better manage crews and increase the utilization of the Company's most valuable resource – its people.

CUSTOMER FIRST

CN is making significant technology investments to address its customers' growing needs. These investments include a complete renovation of the way it interacts with customers in managing empty-equipment demand and supply, expansion of its eBusiness capabilities, and improved invoice accuracy.

CN is also innovating in terms of the way it connects information across all the partners in its customers' supply chains, to drive service and visibility improvements. The Company is also relentlessly organizing and analyzing the data behind all aspects of its service, to generate intuitive performance scorecards to focus its efforts on continuous improvement.

POSITIVE TRAIN CONTROL (PTC)

The U.S. government has mandated the implementation of new trackside, locomotive, GPS and rail traffic control technologies to ensure appropriate train braking to prevent collisions, derailments and incursion into work zones under the umbrella of PTC. These new technologies, to be implemented only on CN's U.S. network, will deeply change train control. They are expected to reduce workload for dispatchers and will improve safety and communications, fuel conservation, locomotive diagnostics and on-board reporting.

Implementation costs associated with the U.S. federal government legislative requirement to implement PTC by 2015 will amount to approximately US$220 million for CN.

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TECHNOLOGY INITIATIVES

FUEL LIFE CYCLE MANAGEMENT (FLCM)

The Company has developed a Fuel Management Excellence (FMX) program to reduce fuel consumption with new technologies and tools which will help customers save on transportation costs. This part of the FMX Program relates to the reconciliation process of fuel purchased compared to that received, and the daily volume reconciliation in all CN storage tanks across the system. CN's movement from a monthly to a daily reconciliation process, plus the addition of a transportation gain-loss measurement will enable the Company to better pinpoint the amount of fuel in the system. It will also facilitate more accurate fuel-efficiency measurements.

HPT ANAlYZER

CN first implemented its matching horsepower to tonnage initiative in 2009. This system ensures that all overpowered trains have a clear instruction to the crew that will allow the train to maintain the train schedule while either shutting down one of the units or reducing the notch at which it operates in order to conserve fuel. This system is unique to CN. Its implementation required a very careful balance and business process analysis to ensure fuel-productivity improvement did not adversely affect train velocity.

WI-TRONIX

The Wi-Tronix locomotive telemetry system standardizes and transmits locomotive event recorder (ER) data in real time, to the back office. CN started to install Wi-Tronix on its high horsepower fleet in 2006. The main objective of this tool is to remotely download ER data and other video data from locomotives. In 2010, CN installed this system in over 300 locomotives. The system also started to provide fuel sensor information at this time. With the launch of the FMX program, further development with Wi-Tronix allowed the Company to move from a locomotive asset view to an integrated view of the locomotive within the train and real-time data about how the unit was operating – i.e., speed, notch, direction, location, fuel level. This then allowed the Company to provide instructions to the crew as part of the HPT Analyzer system and also monitor compliance with those instructions. In September 2010, the monitoring of HPTA instructions on a real-time basis and the business process to address any non-compliance with these instructions were put in place and continued to improve CN's fuel efficiency. Wi-Tronix is now deployed in over 640 HHP locomotives and CN is now monitoring more than 160 trains per day.

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TECHNOLOGY INITIATIVES SPOTLIGHT

TECHNOLOGY AND FUEL PRODUCTIVITY

CN's fuel expense totalled over $1 billion in 2010, amounting to 20 per cent of the Company's operating expenses. The vast majority of this is locomotive fuel.

CN leads the North American rail industry in fuel efficiency, consuming, overall, approximately 10 per cent less fuel per gross-ton-mile than the rail industry average. Since 2004, CN's fuel productivity has increased from 845 GTMs/U.S. gallon to 959 GTMs/U.S. gallon in 2010. This represents a 14 per cent fuel-productivity improvement. The years 2009 and 2010 were breakthrough periods in terms of fuel-productivity improvements – just over four per cent and three per cent respectively. The Company has developed a Fuel Management Excellence (FMX) Program in 2010. FMX focuses on creating a fuel-productivity scorecard which measures operational indicators that have an impact on fuel usage and starts to focus on the impact of operational behaviours on fuel-efficiency objectives. Information technology plays a key role in CN's fuel-efficiency improvements since the ability to enhance and implement systems that allow fuel-usage measurement is key to the strategy.

The ability to move from an aggregate GTM/gallon measurement to a more detailed measurement of GTM/gallon per locomotive and per train is what will take CN to the next frontier in fuel-productivity improvements. The Company's development of the ability to measure fuel use at this level provides the capability to assess the effects of various fuel-productivity initiatives and to understand the combination of variables that have an impact on fuel-productivity performance.

CN is investing in:

- Newer, more fuel efficient locomotives;
- Distributed power, allowing the Company to run longer trains;
- Trip Optimizer software, a type of cruise control for trains;
- Auto Engine Start Stop (AESS), which conserves energy when locomotives are idle;
- Wi-Tronix telemetry technology, which provides near real-time locomotive operation monitoring.

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CN PENSION PLAN

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 offers postretirement benefits to certain employees, providing life insurance, medical benefits and, for a closed group of employees, free rail travel benefits during retirement. These postretirement benefits are funded as they become due.

FUNDING POLICY

Employee contributions to the CN Pension 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. Actuarial valuations will be required annually starting with the actuarial valuation as at December 31, 2011. 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.

PLAN ASSETS

The assets of the Company's various plans are held in separate trust funds which are diversified by asset type, country and investment strategies. Each year, the CN Board of Directors reviews and confirms or amends the Statement of Investment Policies and Procedures (SIPP) which includes the plans' long-term asset class mix and related benchmark indices (Policy). This Policy is based on a long-term forward-looking view of the world economy, the dynamics of the plans' benefit liabilities, the market return expectations of each asset class and the current state of financial markets. Annually, the CN Investment Division, a division of the Company created to invest and administer the assets of the plans, proposes a short-term asset mix target (Strategy) for the coming year, which is expected to differ from the Policy, because of current economic and market conditions and expectations. The Investment Committee of the Board (Committee) regularly compares the actual asset mix to the Policy and Strategy asset mixes and evaluates the actual performance of the trust funds in relation to the performance of the Policy, calculated using Policy asset mix and the performance of the benchmark indices.

The plans' investment manager monitors market events and exposures to markets, currencies and interest rates daily. When investing in foreign securities, the plans are exposed to foreign currency risk that may be adjusted or hedged; the effect of which is included in the valuation of the foreign securities.

CN PENSION PLAN

PLAN ASSET ALLOCATION

Based on the fair value of the assets held as at December 31, 2010, the assets of the Company's various plans are comprised of three per cent in cash and short-term investments, 25 per cent in bonds, one per cent in mortgages, 50 per cent in equities, two per cent in real estate assets, eight per cent in oil and gas, four per cent in infrastructure, and seven per cent in absolute return investments. The long-term asset allocation percentages are not expected to differ materially from the current composition. A significant portion of the plans' assets is invested in publicly-traded equity securities whose return is primarily driven by stock market performance. Debt securities also account for a significant portion of the plans' investments and provide a partial offset to the variation in the pension benefit obligation that is driven by changes in the discount rate. The funded status of the plan fluctuates with future market conditions and impacts funding requirements. The Company continues to make contributions to the pension plans that as a minimum will meet pension legislative requirements.

FAIR VALUE OF PLAN ASSETS AS AT DECEMBER 31, 2010

in millions, unless otherwise indicated

ASSET CLASS		TOTAL	% OF TOTAL ASSETS
Cash and short-term investments	$	429	3
Bonds			
Canada and supranational		2,013	13
Provinces of Canada		1,292	9
Corporate		92	1
Emerging market debt		318	2
Mortgages		205	1
Equities			
Canadian		3,228	21
U.S.		1,316	9
International		3,076	20
Real estate		318	2
Oil and gas		1,141	8
Infrastructure		607	4
Absolute return			
Multi-strategy funds		311	2
Fixed income funds		197	1
Commodity funds		75	1
Equity funds		148	1
Global macro funds		292	2
	$	15,058	100
Other		34	–
Total plan assets	$	15,092	100

OBLIGATIONS AND FUNDED STATUS

In millions Year ended December 31,	Pensions 2010	2009	Other postretirement benefits 2010	2009
Projected benefit obligation at end of year	$14,895	$13,708	$283	$268
Fair value of plan assets at end of year	$15,092	$14,332	–	–
Funded (unfunded) status (Excess of fair value of plan assets over projected benefit obligation at end of year)	$197	$624	$(283)	$(268)

CN PENSION PLAN

CALCULATION OF NET PERIODIC COST (INCOME)

The Company accounts for net periodic benefit cost for pensions and other postretirement benefits as required by FASB ASC 715 “Compensation – Retirement Benefits.” Under the standard, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. In the calculation of net periodic benefit cost, the standard allows for a gradual recognition of changes in benefit obligations and fund performance over the expected average remaining service life of the employee group covered by the plans.

In accounting for pensions and other postretirement benefits, assumptions are required for, among others, the discount rate, the expected long-term rate of return on plan assets, the rate of compensation increase, health care cost trend rates, mortality rates, employee early retirements, terminations and disability. Changes in these assumptions result in actuarial gains or losses, which are recognized in Other comprehensive income (loss). The Company amortizes these gains or losses into net periodic benefit cost over the expected average remaining service life of the employee group covered by the plans only to the extent that the unrecognized net actuarial gains and losses are in excess of the corridor threshold, which is calculated as 10 per cent of the greater of the beginning-of-year balances of the projected benefit obligation or market-related value of plan assets. The Company’s net periodic benefit cost for future periods is dependent on demographic experience, economic conditions and investment performance. Recent demographic experience has revealed no material net gains or losses on termination, retirement, disability and mortality. Experience with respect to economic conditions and investment performance is further discussed herein.

DISCOUNT RATE ASSUMPTIONS

The Company’s discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for pension benefits as they become due. The discount rate is determined by management with the aid of third-party actuaries. The Company’s methodology for determining the discount rate is based on a zero-coupon bond yield curve, which is derived from a semi-annual bond yield curve provided by a third party. The portfolio of hypothetical zero-coupon bonds is expected to generate cash flows that match the estimated future benefit payments of the plans as the bond rate for each maturity year is applied to the plans’ corresponding expected benefit payments of that year. A discount rate of 5.32 per cent, based on bond yields prevailing at December 31, 2010 (6.19 per cent at December 31, 2009) was considered appropriate by the Company to match the approximately 10-year average duration of estimated future benefit payments. The current estimate for the expected average remaining service life of the employee group covered by the plans is approximately nine years.

CN PENSION PLAN

For the year ended December 31, 2010, a 0.25 per cent decrease in the 5.32 per cent discount rate used to determine the projected benefit obligation would have resulted in a decrease of approximately $370 million to the funded status for pensions and an increase of approximately $25 million to the 2011 net periodic benefit cost. A 0.25 per cent increase in the discount rate would have resulted in an increase of approximately $360 million to the funded status for pensions and an increase of approximately $5 million to the 2011 net periodic benefit cost. The above sensitivities are subject to change at the next valuation date of December 31, 2011.

WEIGHTED-AVERAGE ASSUMPTIONS USED IN ACCOUNTING FOR PENSIONS AND OTHER POSTRETIREMENT BENEFITS

	Pensions			Other postretirement benefits		
December 31,	2010	2009	2008	2010	2009	2008
To determine projected benefit obligation Discount rate	5.32 %	6.19 %	7.42 %	5.29 %	6.01 %	6.84 %
To determine net periodic benefit cost Discount rate	6.19 %	7.42 %	5.53 %	6.01 %	6.84 %	5.84 %

EXPECTED LONG-TERM RATE OF RETURN ASSUMPTION

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 multiple factors. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current asset portfolio mix. Consideration is taken of the historical performance, the premium return generated from an actively managed portfolio, as well as current and future anticipated asset allocations, economic developments, inflation rates and administrative expenses. Based on these factors, the rate is determined by the Company. For 2010, the Company used a long-term rate of return assumption of 7.75 per cent on the market-related value of plan assets to compute net periodic benefit cost.

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. If the Company had elected to use the market value of assets, which for the CN Pension Plan at December 31, 2010 was above the market-related value of assets by $363 million, net periodic benefit income would have increased by approximately $30 million for 2010, assuming all other assumptions remained constant. Effective January 1, 2011, the Company has reduced the expected long-term rate of return on plan assets from 7.75 per cent to 7.50 per cent to reflect management’s current view of long-term investment returns.

CN PENSION PLAN

The actual, market-related value, and expected rates of return on plan assets for the last five years were as follows:

RATES OF RETURN	2010	2009	2008	2007	2006
Actual	8.7 %	10.8 %	(11.0 %)	8.0 %	10.7 %
Market-related value	4.8 %	6.5 %	7.8 %	12.7 %	11.4 %
Expected	7.75 %	7.75 %	8.00 %	8.00 %	8.00 %

The Company’s expected long-term rate of return on plan assets reflects management’s view of long-term investment returns and the effect of a one per cent variation in such rate of return would result in a change to the net periodic benefit cost of approximately $85 million.

Management’s assumption of the expected long-term rate of return is subject to risks and uncertainties that could cause the actual rate of return to differ materially from management’s assumption. There can be no assurance that the plan assets will be able to earn the expected long-term rate of return on plan assets.

FINANCIAL MANAGEMENT

MAINTAINING FINANCIAL FLEXIBILITY

CN adopts a prudent approach in the management of its financial affairs, resulting in a strong balance sheet.

Credit rating agencies have acknowledged CN’s financial strength with ratings amongst the highest of its Class I peers. These ratings have enabled CN to obtain financing at lower borrowing costs.

In addition to its cash-generation capacity, the Company maintains financial flexibility with ready access to various sources of funds.

REVOLVING CREDIT FACILITY

In May 2011, the Company refinanced its revolving credit facility with a new four-year $800-million facility co-led by The Bank of Nova Scotia, J.P. Morgan Securities LLC, and BMO Capital Markets.1 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.

BILATERAL LETTER OF CREDIT FACILITIES

In April 2011, the Company entered into a series of three-year bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of three months, equal to at least the face value of the letters of credit issued.

COMMERCIAL PAPER

The Company has a commercial paper program, which is backed by 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 presented in current portion of long-term debt and short-term debt.

WORKING CAPITAL

The Company has at times had working capital deficits which are considered common in the rail industry because of its capital-intensive nature, and not an indication of a lack of liquidity. The Company maintains adequate resources to meet daily cash requirements, and has sufficient financial capacity to manage its day-to-day cash requirements and current obligations, including the commercial paper program, and revolving credit facility.

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1. The facility allows for an increase in amount, up to a maximum of $500 million, as well as an extension of one year at each anniversary date, subject to the consent of individual lenders.

MANAGING FINANCIAL RISKS

In the normal course of business, the Company is exposed to various risks such as customer 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 Finance 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 financial liquidity. The Company has limited involvement with derivative financial instruments in the management of its risks and does not use them for trading purposes.

CUSTOMER 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, economic conditions can affect the Company's customers and can result in an increase to the Company's credit risk and exposure to business failures of its customers. To manage its credit risk, on an ongoing basis, the Company's focus is on keeping the average daily sales outstanding within an acceptable range, and working with customers to ensure timely payments, and in certain cases, requiring financial security, including letters of credit.

FUEL

The Company is exposed to commodity price 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. For more information on how the Company is managing its fuel risk, please refer to the Managing energy cost section of this document.

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 Company's pension and postretirement plans and to its long-term debt. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans, particularly the Company's main Canadian pension plan. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuations may have a material adverse effect on the funded status of the plans and on the Company's results of operations.

The Company mainly issues fixed-rate debt, which exposes the Company to variability in the fair value of its 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, and currency and interest-rate profile. In anticipation of future debt issuances, the Company may enter into forward rate agreements.

FOREIGN CURRENCY

Although the Company conducts its business and reports its earnings in Canadian dollars, a large portion of its revenues (50 to 55 per cent), expenses (50 to 55 per cent), and debt (over 95 per cent) is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. However, to minimize volatility of earnings resulting from the conversion of U.S. dollar-denominated debt into Canadian dollars, the Company designates the U.S. dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries.

The estimated annual impact on net income of a year-over-year one-cent change in the Canadian dollar relative to the U.S. dollar is in the range of $5 million to $10 million. 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.

LIQUIDITY

The Company monitors and manages its cash requirements to ensure access to sufficient funds to meet operational and investing requirements. The Company's principal source of liquidity is cash generated from operations, which is supplemented by its commercial paper program to meet short-term liquidity needs. The Company's primary use of funds is for working capital requirements, including income tax instalments as they become due, and pension contributions, contractual obligations, capital expenditures relating to track infrastructure and other, acquisitions, dividends payouts, and the repurchase of shares through the share buyback program.

MANAGEMENT INCENTIVES

The Company’s executive compensation program is designed to ensure that there is a clear link between the Company’s long-term strategy, its business plans and executive reward, by linking a significant proportion of pay-for-performance with key corporate objectives that play a pivotal role in driving the organization’s short- and long-term profitability and return to shareholders. The executive compensation program is also designed to be competitive and to attract, retain and motivate outstanding executive talent. Equally, the Company aims to put in place appropriate policies that align compensation with the interests of shareholders in order to encourage the right behaviours.

The executive compensation program is comprised of five elements: i) base salary; ii) annual incentive bonus; iii) long-term incentive; iv) pension benefits; and v) executive perquisites. The combination of base salary, annual bonus incentive and long-term incentive define the total direct compensation offering. The value of total direct compensation is weighted towards variable, or pay-for-performance incentives.

CORPORATE GOVERNANCE

ADHERING TO THE HIGHEST STANDARDS OF ETHICAL BUSINESS CONDUCT

CN is committed to adherence to the highest standards of ethical business conduct in its governance practices. These practices are designed to assist the Company in the achievement of its principal corporate objective, which is the enhancement of shareholder value on a long-term basis. Respected corporate governance authorities and experts recognize CN as a leader in this field. The Company has received the IR Magazine Canada Awards program's Best Corporate Governance Award two years in a row. In 2011, CN was also awarded the Canadian Coalition for Good Governance – Gavel Award for Best Disclosure of Board Governance Practices and Director Qualifications.

Each year, CN's Board of Directors (Board) reviews its Corporate Governance Manual in order to continuously improve the Company's practices. The Board is dedicated to maintaining and improving its practices and policies to ensure the highest standards of transparency and independence.

CN believes that its rigorous, vigilant approach to corporate governance contributes to the Company's ongoing success in an important way. For that reason, CN has adopted numerous governance structure and process innovations, which include:

- A comprehensive Corporate Governance Manual, available on the Company's Web site, describing mandates of the Board and its committees, as well as many corporate policies;
- 12 non-executive independent Board members on a 13-member Board;
- A non-executive and independent Chairman, who is also Chair of the Corporate Governance and Nominating Committee, and whose key responsibilities and mandate are set out in the Corporate Governance Manual;
- Voluntary compliance with many requirements of the U.S. Sarbanes-Oxley Act of 2002, several years before the Company was required to do so;
- The institution of a director majority voting policy for the election of the Company's directors;
- Thoroughgoing procedures for the evaluation of the performance of the Board chair, Board committees and committee chairs, individual Board members and the Chief Executive Officer, including the development of a competency matrix that also serves as an effective tool in the selection of candidates for Board membership;
- In early 2010, it was agreed that the Company would closely monitor the evolution of "Say on Pay" resolutions with the intention to include a non-binding advisory "Say on Pay" vote in 2011. At the 2011 Annual General Meeting (AGM), a ballot was conducted with respect to a non-binding advisory vote on the Company's approach to Executive compensation. Common shares voted "FOR" amounted to 95.55 per cent of the common shares represented at the AGM.

- The revision of the Company's Executive Compensation Policy to position total direct compensation between the median and the 60th percentile when compared against market. This reduction from the 75th percentile was determined to be competitive after a thorough review of the structure, levels and practices of remuneration in the railroad industry;

- The adoption of a policy whereby a director wishing to join the board on which another CN director currently sits must obtain the approval of the Corporate Governance and Nominating Committee and a policy to the effect that no more than two CN directors should generally serve on the same outside board;

- The adoption of guidelines limiting the number of boards of directors on which the Company's directors should sit;

- The maintenance of an evergreen list of potential Board candidates;

- The provision of direct access to the Board Chairman through the Company's Web site to any interested parties, including members of the public;

- The establishment of channels for employees and other parties to confidentially report any concerns relating to accounting, auditing or corporate ethics;

- The adoption of an updated comprehensive Code of Business Conduct, applicable to directors and all employees of CN, to promote a culture of integrity and ethical business conduct;

- The division of the Board's audit and financial oversight responsibilities between two separate Board committees.

CN deepened its commitment to environmental sustainability with initiatives such as a cross-functional sustainability committee which meets quarterly to align sustainability priorities with the business strategy, and which interacts with the Board's Environment, Safety and Security Committee

CN strives to be among North America's leaders in corporate governance. The Company's focus is to create a corporate governance framework that is cohesive and integrated while encouraging an innovative spirit among its employees and management. CN is very proud of its record of good corporate governance over the past decade, as well as the awards and recognition it has received in this field.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

David G. A. McLean,
O.B.C., LL.D.
Chairman of the Board
Canadian National Railway Company
Chairman of the Board and Chief Executive Officer
The McLean Group
Vancouver, B.C.
Committees: 2, 3(C), 4, 6, 7, 8

Michael Ralph Armellino, CFA
Retired Partner
The Goldman Sachs Group, LP
Fort Lee, N.J.
Committees: 2, 5, 6, 7(C), 8

A. Charles Baillie, O.C., LL.D.
Former Chairman and CEO
The Toronto-Dominion Bank
Toronto, Ont.
Committees: 2(C), 3, 6, 7, 8

Hugh J. Bolton, FCA
Chairman of the Board
EPCOR Utilities Inc.
Edmonton, Alta.
Committees: 1, 5, 6, 7, 8

Donald J. Carty, O.C., LL.D.
Retired Vice-Chairman and Chief Financial Officer
Dell, Inc.
Dallas, Tex.
Committees: 1, 2, 3, 7

Ambassador Gordon D. Giffin
Senior Partner
McKenna, Long & Aldridge
Atlanta, Ga.
Committees: 2, 4, 5, 7, 8

Edith E. Holiday
Corporate Director and Trustee,
Former General Counsel,
United States Treasury Department and
Secretary of the Cabinet
The White House
Village of Golf, Fla.
Committees: 2, 3, 6, 7, 8

V. Maureen Kempston Darkes, O.C., D. Comm., LL.D.
Retired Group Vice-President
General Motors Corporation and President
GM Latin America, Africa and Middle East
Weston, Fla.
Committees: 1, 5(C), 6, 7, 8

The Honourable Denis Losier, P.C., LL.D.
President and Chief Executive Officer
Assumption Life
Moncton, N.B.
Committees: 1(C), 4, 5, 6, 7

The Honourable
Edward C. Lumley, P.C., LL.D.
Vice-Chairman
BMO Capital Markets
South Lancaster, Ont.
Committees: 2, 3, 6, 7, 8(C)

Claude Mongeau
President and Chief Executive Officer
Canadian National Railway Company
Montreal, Que.
Committees: 4(C), 7

James E. O'Connor
Former Chairman and CEO
Republic Services, Inc.
Fort Lauderdale, Fla.
Committees: 1, 2, 5, 7

Robert Pace
President and
Chief Executive Officer
The Pace Group
Halifax, N.S.
Committees: 1, 3, 6(C), 7, 8

COMMITTEES

1. Audit
2. Finance
3. Corporate Governance and Nominating
4. Donations and Sponsorships
5. Environment, Safety and Security
6. Human Resources and Compensation
7. Strategic Planning
8. Investment Committee of CN's Pension Trust Funds

(C) denotes chairman of the committee

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Explanation of Responses: 77

CLAUDE MONGEAU

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Claude Mongeau became President and Chief Executive Officer of CN on January 1, 2010. He joined CN in May 1994 and has held the positions of Vice-President, Strategic and Financial Planning, and Assistant Vice-President, Corporate Development. He was appointed Executive Vice-President and Chief Financial Officer in October 2000.

Prior to joining CN, Mr. Mongeau was a partner with Groupe SECOR, a Montreal-based management consulting firm providing strategic advice to large Canadian corporations such as Bombardier and Bell Canada. He also worked in the business development unit of Imasco Inc., a diversified holding company with subsidiaries operating in the manufacturing, retail, and financial services sectors. His career started in Europe with Bain & Company, a leading American consulting firm.

In 1997, Claude Mongeau was named one of Canada's top 40 executives under 40 years of age by the Financial Post Magazine. In 2005, he was selected Canada's CFO of the Year by an independent committee of prominent Canadian business leaders.

Directorships
Canadian National Railway Company
SNC-Lavalin

Education
McGill University
Institut Supérieur des affaires (France)
Université du Québec à Montréal

Professional Experience
Canadian National Railway Company
Imasco Ltd
Groupe SECOR Inc.
Bain & Company (Paris)

Awards
Canada's CFO of the Year for 2005
Canada's Top 40 under 40

EXECUTIVE PROFILES

KEITH CREEL

EXECUTIVE VICE-PRESIDENT AND CHIEF OPERATING OFFICER

Keith Creel was appointed Executive Vice-President and Chief Operating Officer in January 2010. In this role, Mr. Creel is responsible for the Company's rail operations in Canada and the United States. Prior to that, he held the positions of Executive Vice-President, Operations (since May 2007), Senior Vice-President of CN's Eastern Region (since January 2004), Senior Vice-President of CN's Western Region (since July 2003), and Vice-President of the Prairie Division (since 2002).

Mr. Creel began his railroad career at Burlington Northern Railway in 1992 as an Intermodal Ramp Manager in Birmingham, Alabama. He entered the Operations department in 1993 as a Corporate Management Trainee in Lincoln, Neb., and worked as a Trainmaster in Tulsa, Okla., and Wichita Falls, Tex.

Mr. Creel joined the Illinois Central Railroad in 1996 as a Trainmaster in Memphis, Tenn., and was transferred to Jackson, Miss., as Director of Corridor Operations in 1997.

In preparation for the CN/IC merger, Mr. Creel was transferred to Battle Creek, Mich., as District Superintendent in early 1999, and was appointed General Manager – Michigan Zone, Midwest Division, in June 2000.

Mr. Creel obtained a Bachelor of Science degree in marketing/management from Jacksonville State University. He also completed the Advanced Management Program at the Harvard Business School. Mr. Creel has a military background and served as a commissioned officer in the U.S. Army, during which time he served in the Persian Gulf War in Saudi Arabia.

SEAN FINN

EXECUTIVE VICE-PRESIDENT CORPORATE SERVICES AND CHIEF LEGAL OFFICER

Sean Finn was appointed Executive Vice-President Corporate Services and Chief Legal Officer in December 2008. He is responsible for a wide array of legal, government, regulatory, public affairs, risk mitigation and security matters.

Mr. Finn joined CN in January 1994 and led the Company's corporate tax function while being involved extensively in CN's privatization in November 1995. He was appointed Treasurer and Principal Tax Counsel in August 1996; Vice-President, Treasurer and Principal Tax Counsel in January 2000; Senior Vice-President, Chief Legal Officer and Corporate Secretary in December 2000; and Senior Vice-President Public Affairs, Chief Legal Officer and Corporate Secretary in February 2003. As Corporate Secretary, he is actively involved and responsible for CN's Corporate

Governance Practices and the implementation of the CN Business Code of Conduct.

Prior to joining CN, Mr. Finn was the managing tax partner with the Montreal law firm Lavery, de Billy.

Mr. Finn graduated from the faculty of law of Université de Montréal in 1981 and completed a Masters degree in tax law at the University of Toronto in 1983. He was admitted to the Quebec Bar in 1983.

He is former Chairman of the Canadian Chamber of Commerce (2006-2007) and of the Quebec Chamber of Commerce (2002-2003). He was the mayor of the City of Saint-Lambert, Quebec, from 2005 to 2009. Mr. Finn is currently a board member of Canam Group Inc., the YMCA Foundation of Greater Montreal, the Montreal Children’s Hospital Foundation and of Swimming Canada.

EXECUTIVE PROFILES

LUC JOBIN

EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Luc Jobin became Executive Vice-President and Chief Financial Officer of Montreal-based CN, in June 2009. His responsibilities at CN include financial management and strategic planning.

Mr. Jobin has an extensive background as a business leader and senior executive within the consumer goods, manufacturing and investment industries. Prior to his appointment at CN, he was an Executive Vice-President of Power Corporation of Canada (PCC), an international management and holding company, where he was responsible for PCC's portfolio of diversified investments. Before joining PCC in 2005, he spent 22 years in a variety of financial and executive management positions with Imasco Limited and its Canadian tobacco subsidiary, Imperial Tobacco. Imasco, a major Canadian consumer products and services corporation, became a British American Tobacco Plc subsidiary in 2000. Mr. Jobin was President and Chief Executive Officer of Imperial Tobacco when he joined PCC in 2005.

Mr. Jobin is a Director of Reynolds American Inc., the parent company of the R.J. Reynolds Tobacco Company, since 2008. He is also a board member of the On the Tip of the Toes Foundation, which organizes therapeutic adventure expeditions for teenagers living with cancer, and The Tolerance Foundation, an organization that strives to sensitize teenagers about the negative impact of prejudice.

Mr. Jobin obtained his Chartered Accountant accreditation from the Canadian Institute of Chartered Accountants in 1983. He earned his diploma in Public Accountancy from McGill University in 1982.

JEAN-JACQUES RUEST

EXECUTIVE VICE-PRESIDENT AND CHIEF MARKETING OFFICER

Jean-Jacques Ruest was appointed Executive Vice-President and Chief Marketing Officer in January 2010, with responsibility for providing the strategic direction and leadership for CN's sales, marketing and supply-chain solution groups.

Mr. Ruest joined CN in 1996 as Vice-President, Petroleum and Chemicals. He was appointed Vice-President, Industrial Products in 2003, Vice-President, Marketing in 2004, and Senior Vice-President, Marketing in June 2006.

Prior to this, Mr. Ruest worked for 16 years at a major international chemical company.

Mr. Ruest holds a Masters in Business Administration in Marketing from HEC Montréal (Université de Montréal) and a Bachelor of Science degree in applied

chemistry from Université de Sherbrooke. He also completed the executive program of the University of Michigan Business School, and CN's Railroad MBA program.

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CANADIAN NATIONAL RAILWAY COMPANY
QUARTERLY CONSOLIDATED STATEMENT OF INCOME 2009-2011

unaudited
In millions, except per share data

	2009				
	Q1	Q2	Q3	Q4	Year
Revenues	$ 1,859	$ 1,781	$ 1,845	$ 1,882	$ 7,367
Operating expenses					
Labor and fringe benefits	454	413	416	413	1,696
Purchased services and material	291	253	227	256	1,027
Fuel	194	187	205	234	820
Depreciation and amortization	203	199	191	197	790
Equipment rents	82	70	66	66	284
Casualty and other	154	76	51	63	344
Total operating expenses	1,378	1,198	1,156	1,229	4,961
Operating income	481	583	689	653	2,406
Interest expense	(112)	(108)	(97)	(95)	(412)
Other income	161	9	21	76	267
Income before income taxes	530	484	613	634	2,261
Income tax expense	(106)	(97)	(152)	(52)	(407)
Net income	$ 424	$ 387	$ 461	$ 582	$ 1,854
Earnings per share					
Basic	$ 0.91	$ 0.83	$ 0.98	$ 1.24	$ 3.95
Diluted	$ 0.90	$ 0.82	$ 0.97	$ 1.23	$ 3.92
Weighted–average number of shares					
Basic	468.3	468.7	469.4	470.5	469.2
Diluted	472.3	473.0	473.8	474.8	473.5

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	2010					2011		2010	2011
	Q1	Q2	Q3	Q4	Year	Q1	Q2	H1	H1
$	1,965	$ 2,093	$ 2,122	$ 2,117	$ 8,297	$ 2,084	$ 2,260	$ 4,058	$ 4,344
	470	414	437	423	1,744	473	432	884	905
	258	250	246	282	1,036	286	268	508	554
	253	255	249	291	1,048	327	353	508	680
	205	205	204	220	834	218	217	410	435
	60	60	61	62	243	51	54	120	105
	116	96	91	65	368	84	62	212	146
	1,362	1,280	1,288	1,343	5,273	1,439	1,386	2,642	2,825
	603	813	834	774	3,024	645	874	1,416	1,519
	(92)	(91)	(90)	(87)	(360)	(86)	(85)	(183)	(171)
	162	14	24	12	212	300	10	176	310
	673	736	768	699	2,876	859	799	1,409	1,658
	(162)	(202)	(212)	(196)	(772)	(191)	(261)	(364)	(452)
$	511	$ 534	$ 556	$ 503	$ 2,104	$ 668	$ 538	$ 1,045	$ 1,206
$	1.08	$ 1.14	$ 1.20	$ 1.09	$ 4.51	$ 1.46	$ 1.19	$ 2.22	$ 2.64
$	1.08	$ 1.13	$ 1.19	$ 1.08	$ 4.48	$ 1.45	$ 1.18	$ 2.21	$ 2.63
	471.0	468.8	464.6	461.1	466.3	458.3	453.9	469.9	456.1
	474.9	472.6	468.4	464.8	470.1	461.0	457.1	473.7	459.4

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CANADIAN NATIONAL RAILWAY COMPANY
QUARTERLY CONSOLIDATED BALANCE SHEET 2009-2011

unaudited
In millions

	2009			
	Q1	Q2	Q3	Q4
Assets				
Current assets:				
Cash and cash equivalents	$ 349	$ 431	$ 233	$ 352
Accounts receivable	940	865	849	797
Material and supplies	273	258	237	170
Deferred income taxes	77	113	70	105
Other	138	96	60	66
Total current assets	1,777	1,763	1,449	1,490
Properties	23,947	23,160	22,454	22,630
Intangible and other assets	1,787	1,814	1,849	1,056
Total assets	$ 27,511	$ 26,737	$ 25,752	$ 25,176
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and other	$ 1,280	$ 1,270	$ 1,159	$ 1,167
Current portion of long-term debt and short-term debt	527	506	89	70
Total current liabilities	1,807	1,776	1,248	1,237
Deferred income taxes	5,594	5,443	5,363	5,119
Other liabilities and deferred credits	1,371	1,319	1,227	1,196
Long-term debt	7,836	7,093	6,511	6,391
Shareholders' equity:				
Common shares	4,188	4,203	4,239	4,266
Accumulated other comprehensive loss	(126)	(207)	(288)	(948)
Retained earnings	6,841	7,110	7,452	7,915
Total shareholders' equity	10,903	11,106	11,403	11,233
Total liabilities and shareholders' equity	$ 27,511	$ 26,737	$ 25,752	$ 25,176

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2010				2011	
Q1	Q2	Q3	Q4	Q1	Q2
$ 748	$ 896	$ 548	$ 490	$ 593	$ 175
781	794	810	775	770	825
235	255	271	210	228	240
88	96	55	53	50	50
95	64	127	62	73	551
1,947	2,105	1,811	1,590	1,714	1,841
22,269	22,801	22,646	22,917	22,677	22,789
1,166	1,221	1,571	699	821	840
$ 25,382	$ 26,127	$ 26,028	$ 25,206	$ 25,212	$ 25,470
$ 1,229	$ 1,341	$ 1,193	$ 1,366	$ 1,341	$ 1,452
108	210	109	540	474	530
1,337	1,551	1,302	1,906	1,815	1,982
5,145	5,298	5,442	5,152	5,201	5,301
1,199	1,256	1,310	1,333	1,287	1,284
6,189	6,345	6,117	5,531	5,451	5,432
4,301	4,275	4,270	4,252	4,228	4,211
(980)	(929)	(973)	(1,709)	(1,736)	(1,741)
8,191	8,331	8,560	8,741	8,966	9,001
11,512	11,677	11,857	11,284	11,458	11,471
$ 25,382	$ 26,127	$ 26,028	$ 25,206	$ 25,212	$ 25,470

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CANADIAN NATIONAL RAILWAY COMPANY
QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS 2009 – 2011

unaudited

In millions

	2009 Q1	Q2	Q3	Q4	Year
Operating activities					
Net income	$424	$387	$461	$582	$1,854
Adjustments to reconcile net income to net cash provided from operating activities:					
Depreciation and amortization	203	199	191	197	790
Deferred income taxes	10	40	96	(8)	138
Gain on disposal of property	(157)	–	–	(69)	(226)
Changes in operating assets and liabilities:					
Accounts receivable	1	28	(31)	41	39
Material and supplies	(53)	4	16	65	32
Accounts payable and other	(132)	(9)	(51)	(12)	(204)
Other current assets	36	5	45	(9)	77
Other, net	(14)	(22)	(77)	(108)	(221)
Net cash provided by operating activities	318	632	650	679	2,279
Investing activities					
Property additions	(187)	(309)	(342)	(564)	(1,402)
Acquisitions, net of cash acquired	(373)	–	–	–	(373)
Disposal of property	110	40	7	74	231
Change in restricted cash and cash equivalents	–	–	–	–	–
Other, net	4	33	13	57	107
Net cash used in investing activities	(446)	(236)	(322)	(433)	(1,437)
Financing activities					
Issuance of debt	1,440	–	185	1	1,626
Repayment of debt	(1,272)	(187)	(611)	(39)	(2,109)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	2	13	34	24	73
Repurchase of common shares	–	–	–	–	–
Dividends paid	(118)	(118)	(119)	(119)	(474)
Net cash used in financing activities	52	(292)	(511)	(133)	(884)
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	12	(22)	(15)	6	(19)
Net increase (decrease) in cash and cash equivalents	(64)	82	(198)	119	(61)
Cash and cash equivalents, beginning of period	413	349	431	233	413
Cash and cash equivalents, end of period	$349	$431	$233	$352	$352
Supplemental cash flow information					
Net cash receipts from customers and other	$1,904	$1,834	$1,802	$1,965	$ 7,505
Net cash payments for:					
Employee services, suppliers and other expenses	(1,364)	(972)	(928)	(1,059)	(4,323)

Explanation of Responses:

Interest	(106)	(93)	(107)	(101)	(407)
Personal injury and other claims	(30)	(35)	(21)	(26)	(112)
Pensions	(2)	(30)	(59)	(48)	(139)
Income taxes	(84)	(72)	(37)	(52)	(245)
Net cash provided by operating activities	$318	$632	$650	$679	$ 2,279

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CANADIAN NATIONAL RAILWAY COMPANY
QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS 2009 – 2011

unaudited

In millions

2010 Q1	Q2	Q3	Q4	Year	2011 Q1	Q2	2010 H1	2011 H1
$511	$ 534	$ 556	$ 503	$ 2,104	$668	$ 538	$1,045	$1,206
205	205	204	220	834	218	217	410	435
70	41	233	74	418	104	119	111	223
(152)	–	–	–	(152)	(288)	–	(152)	(288)
(1)	14	(35)	19	(3)	(18)	(54)	13	(72)
(67)	(17)	(18)	59	(43)	(19)	(13)	(84)	(32)
101	98	(187)	273	285	(64)	106	199	42
1	11	13	(12)	13	(10)	3	12	(7)
(71)	(27)	(278)	(81)	(457)	(92)	(17)	(98)	(109)
597	859	488	1,055	2,999	499	899	1,456	1,398
(134)	(301)	(389)	(762)	(1,586)	(220)	(377)	(435)	(597)
–	–	–	–	–	–	–	–	–
144	23	–	1	168	299	–	167	299
–	–	–	–	–	–	(467)	–	(467)
7	11	3	14	35	14	3	18	17
17	(267)	(386)	(747)	(1,383)	93	(841)	(250)	(748)
–	–	–	–	–	–	64	–	64
(18)	(22)	(118)	(26)	(184)	(22)	(17)	(40)	(39)
52	22	27	14	115	20	31	74	51
(129)	(317)	(237)	(230)	(913)	(340)	(407)	(446)	(747)
(127)	(126)	(125)	(125)	(503)	(149)	(147)	(253)	(296)
(222)	(443)	(453)	(367)	(1,485)	(491)	(476)	(665)	(967)
4	(1)	3	1	7	2	–	3	2
396	148	(348)	(58)	138	103	(418)	544	(315)
352	748	896	548	352	490	593	352	490
$748	$ 896	$ 548	$ 490	$ 490	$593	$ 175	$896	$175
$2,057	$ 2,093	$ 2,053	$ 2,201	$ 8,404	$2,105	$ 2,228	$4,150	$4,333
(1,228)	(1,076)	(1,043)	(987)	(4,334)	(1,271)	(1,156)	(2,304)	(2,427)
(91)	(81)	(92)	(102)	(366)	(87)	(75)	(172)	(162)
(14)	(17)	(16)	(17)	(64)	(17)	(16)	(31)	(33)
(102)	(8)	(305)	(12)	(427)	(93)	(5)	(110)	(98)

(25)	(52)	(109)	(28)	(214)	(138)	(77)	(77)	(215)
$597	$ 859	$ 488	$ 1,055	$ 2,999	$499	$ 899	$1,456	$1,398

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CANADIAN NATIONAL RAILWAY COMPANY
QUARTERLY FINANCIAL & STATISTICAL DATA(1) 2009 – 2011

unaudited

	2009 Q1	Q2	Q3	Q4	Year
Revenues (millions of dollars)					
Petroleum and chemicals	340	309	309	302	1,260
Metals and minerals	198	158	183	189	728
Forest products	302	283	291	271	1,147
Coal	103	111	128	122	464
Grain and fertilizers	357	330	298	356	1,341
Intermodal	319	318	359	341	1,337
Automotive	77	92	88	98	355
Total rail freight revenues	1,696	1,601	1,656	1,679	6,632
Other revenues	163	180	189	203	735
Total revenues	1,859	1,781	1,845	1,882	7,367
Statistical operating data					
Gross ton miles (GTM) (millions)	73,557	74,556	77,817	78,760	304,690
Revenue ton miles (RTM) (millions)	38,691	38,865	40,487	41,819	159,862
Carloads (thousands)	954	928	1,032	1,077	3,991
Route miles (includes Canada and the U.S.) (2)	21,100	21,100	21,100	21,100	21,100
Employees (end of period)	22,083	21,717	21,579	21,501	21,501
Employees (average for the period)	22,260	21,827	21,610	21,478	21,793
Productivity					
Operating ratio (%)	74.1	67.3	62.7	65.3	67.3
Rail freight revenue per RTM (cents)	4.38	4.12	4.09	4.01	4.15
Rail freight revenue per carload ($)	1,778	1,725	1,605	1,559	1,662
Operating expenses per GTM (cents)	1.87	1.61	1.49	1.56	1.63
Labor and fringe benefits expense per GTM (cents)	0.62	0.55	0.53	0.52	0.56
GTMs per average number of employees (thousands)	3,304	3,416	3,601	3,667	13,981
Diesel fuel consumed (U.S. gallons in millions)	85.3	79.3	79.2	83.5	327.3
Average fuel price ($/U.S. gallon)	2.12	2.16	2.36	2.49	2.28
GTMs per U.S. gallon of fuel consumed	862	940	983	943	931
Safety indicators					
Injury frequency rate per 200,000 person hours (3)	1.29	1.68	2.10	2.09	1.78
Accident rate per million train miles (3)	2.13	1.71	1.98	3.30	2.27

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

(2) Rounded to the nearest hundred miles.

(3) Based on Federal Railroad Administration (FRA) reporting criteria.

Certain of the 2009 and 2010 comparative figures have been restated to conform with the 2011 presentation. Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

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2010 Q1	Q2	Q3	Q4	Year	2011 Q1	Q2	2010 H1	2011 H1
321	329	341	331	1,322	342	340	650	682
210	210	227	214	861	209	245	420	454
288	299	303	293	1,183	299	317	587	616
132	155	164	149	600	141	162	287	303
372	327	318	401	1,418	406	368	699	774
351	398	427	400	1,576	392	454	749	846
114	128	107	108	457	115	130	242	245
1,788	1,846	1,887	1,896	7,417	1,904	2,016	3,634	3,920
177	247	235	221	880	180	244	424	424
1,965	2,093	2,122	2,117	8,297	2,084	2,260	4,058	4,344
83,990	85,129	84,287	87,813	341,219	86,667	89,615	169,119	176,282
44,080	44,576	43,990	46,586	179,232	46,153	46,683	88,656	92,836
1,108	1,182	1,216	1,190	4,696	1,146	1,234	2,290	2,380
20,900	20,900	20,800	20,600	20,600	20,400	20,500	20,900	20,500
21,747	22,127	22,163	22,279	22,279	22,525	23,315	22,127	23,315
21,481	22,019	22,141	22,229	21,967	22,304	23,060	21,750	22,682
69.3	61.2	60.7	63.4	63.6	69.0	61.3	65.1	65.0
4.06	4.14	4.29	4.07	4.14	4.13	4.32	4.10	4.22
1,614	1,562	1,552	1,593	1,579	1,661	1,634	1,587	1,647
1.62	1.50	1.53	1.53	1.55	1.66	1.55	1.56	1.60
0.56	0.49	0.52	0.48	0.51	0.55	0.48	0.52	0.51
3,910	3,866	3,807	3,950	15,533	3,886	3,886	7,776	7,772
91.1	87.5	85.9	91.2	355.7	92.9	91.3	178.6	184.2
2.56	2.60	2.56	2.83	2.64	3.20	3.42	2.58	3.31
922	973	981	963	959	933	982	947	957
1.67	1.61	1.82	1.74	1.71	1.44	1.71	1.64	1.58
2.07	1.97	2.34	2.53	2.23	2.28	2.44	2.02	2.36

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CANADIAN NATIONAL RAILWAY COMPANY
RECONCILIATION OF NON-GAAP MEASURES 2008 – 2011

unaudited

In millions, except per share data, or unless otherwise indicated

Adjusted performance measures

	2008 Reported	Adjustments(1)	Adjusted	2009 Reported	Adjustments(2)	Adjusted
Revenues	$ 8,482	$ –	$ 8,482	$ 7,367	$ –	$ 7,367
Operating expenses	5,588	–	5,588	4,961	(49)	4,912
Operating income	2,894	–	2,894	2,406	49	2,455
Interest expense	(375)	–	(375)	(412)	–	(412)
Other income	26	–	26	267	(226)	41
Income before income taxes	2,545	–	2,545	2,261	(177)	2,084
Income tax expense	(650)	(117)	(767)	(407)	(144)	(551)
Net income	$ 1,895	$ (117)	$ 1,778	$ 1,854	$ (321)	$ 1,533
Operating ratio	65.9 %		65.9 %	67.3 %		66.7 %
Diluted earnings per share	$ 3.95	$ (0.24)	$ 3.71	$ 3.92	$ (0.68)	$ 3.24

(1) Adjusted to exclude a deferred income tax recovery of $117 million ($0.24 per diluted share), of which $83 million was due to the resolution of various income tax matters and adjustments related to tax filings of prior years, $23 million resulted from the enactment of corporate income tax rate changes in Canada and $11 million was due to net capital losses arising from the reorganization of a subsidiary.

(2)Adjusted to exclude the gain on sale of the Lower Newmarket subdivision of $69 million ($0.12 per diluted share), the gain on sale of the Weston subdivision of $157 million ($0.29 per diluted share), EJ&E acquisition–related costs of $49 million ($0.06 per diluted share); and a deferred income tax recovery of $157 million ($0.33 per diluted share), of which $126 million ($0.27 per diluted share) resulted from the enactment of lower provincial corporate income tax rates, $16 million ($0.03 per diluted share) resulted from the recapitalization of a foreign investment and $15 million ($0.03 per diluted share) resulted from the resolution of various income tax matters and adjustments related to tax filings of prior years.

(3) Adjusted to exclude the gain on sale of the Oakville subdivision of $152 million ($0.28 per diluted share).

(4) Adjusted to exclude the gain on sale of the Kingston subdivision of $288 million ($0.55 per diluted share) and an adjustment related to a net deferred income tax expense of $40 million ($0.08 per diluted share) resulting from the enactment of state corporate income tax rate changes and other legislated state tax revisions.

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2010 Reported	Adjustments(a)	2010 Adjusted	2010 H1 Reported	Adjustments(a)	2010 H1 Adjusted	2011 H1 Reported	Adjustments(a)	2011 H1 Adjusted
$ 8,297	$ –	$ 8,297	$ 4,058	$ –	$ 4,058	$ 4,344	$ –	$ 4,344
5,273	–	5,273	2,642	–	2,642	2,825	–	2,825
3,024	–	3,024	1,416	–	1,416	1,519	–	1,519
(360)	–	(360)	(183)	–	(183)	(171)	–	(171)
212	(152)	60	176	(152)	24	310	(288)	22
2,876	(152)	2,724	1,409	(152)	1,257	1,658	(288)	1,370
(772)	21	(751)	(364)	21	(343)	(452)	74	(378)
$ 2,104	$ (131)	$ 1,973	$ 1,045	$ (131)	$ 914	$ 1,206	$ (214)	$ 992
63.6 %		63.6 %	65.1 %		65.1 %	65.0 %		65.0 %
$ 4.48	$ (0.28)	$ 4.20	$ 2.21	$ (0.28)	$ 1.93	$ 2.63	$ (0.47)	$ 2.16

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CANADIAN NATIONAL RAILWAY COMPANY
RECONCILIATION OF NON-GAAP MEASURES 2008 – 2011

unaudited

In millions, or unless otherwise indicated

Free cash flow

Year ended December 31,	2008	2009
Net cash provided by operating activities	$ 2,031	$ 2,279
Net cash used in investing activities	(1,400)	(1,437)
Net cash provided before financing activities	631	842
Adjustments:		
Change in accounts receivable securitization	568	68
Change in restricted cash and cash equivalents	–	–
Dividends paid	(436)	(474)
Acquisition of EJ&E	–	373
Effect of foreign exchange fluctuations on US dollar–denominated cash and cash equivalents	31	(19)
Free cash flow	$ 794	$ 790

Adjusted debt-to-total capitalization ratio

December 31,	2008	2009
Debt-to-total capitalization ratio (1)	42.8 %	36.5 %
Add: Present value of operating lease commitments plus securitization financing (2)	2.4 %	2.0 %
Adjusted debt-to-total capitalization ratio	45.2 %	38.5 %

Adjusted debt-to-adjusted EBITDA

Year ended December 31,	2008	2009
Debt	$ 7,911	$ 6,461
Add: Present value of operating lease commitments plus securitization financing (2)	787	579
Adjusted debt	$ 8,698	$ 7,040
Operating income	$ 2,894	$ 2,406
Add: Depreciation and amortization	725	790
EBITDA (excluding Other income)	3,619	3,196
Add: Deemed interest on operating leases	39	33
Adjusted EBITDA	$ 3,658	$ 3,229
Adjusted debt-to-adjusted EBITDA	2.4 times	2.2 times

(1) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt and short-term debt, divided by the sum of total debt plus total shareholders' equity.

(2) The operating lease commitments have been discounted using the Company's implicit interest rate for each of the periods presented.

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2010	2010 H1	2011 H1
$ 2,999	$ 1,456	$ 1,398
(1,383)	(250)	(748)
1,616	1,206	650
2	2	–
–	–	467
(503)	(253)	(296)
–	–	–
7	3	2
$ 1,122	$ 958	$ 823

2010	2010 H1	2011 H1
35.0 %	36.0 %	34.2 %
1.8 %	1.9 %	1.9 %
36.8 %	37.9 %	36.1 %

Twelve months ended June 30,		
2010	2010 H1	2011 H1
$ 6,071	$ 6,555	$ 5,962
494	568	527
$ 6,565	$ 7,123	$ 6,489
$ 3,024	$ 2,758	$ 3,127
834	798	859
3,858	3,556	3,986
28	32	30
$ 3,886	$ 3,588	$ 4,016
1.7 times	2.0 times	1.6 times

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GLOSSARY

AVERAGE CARS PER FREIGHT TRAIN Calculated by dividing loaded and empty car miles by train miles.

AVERAGE LENGTH OF HAUL The average distance in miles one ton is carried. Computed by dividing total ton miles by tons of freight.

CANADIAN TRANSPORTATION AGENCY (CTA) The CTA is an independent, quasi-judicial tribunal that makes decisions on a wide range of economic matters involving federally-regulated modes of transportation (air, rail and marine), and has the powers, rights and privileges of a superior court to exercise its authority. Along with its roles as an economic regulator and an aeronautical authority, the agency works to facilitate accessible transportation, and serves as a dispute resolution authority over certain transportation rate and service complaints. The agency deals with rate and service complaints arising in the rail industry, as well as disputes between railway companies and other parties over railway infrastructure matters. It also processes applications for certificates of fitness for the proposed construction and operation of railways, and approvals for railway line construction. The agency determines regulated railway interswitching rates and the railway revenue caps for the movement of Western grain. The agency also develops costing standards and regulations; and audits railway companies' accounting and statistics-generating systems, as required.

CARLOAD a one-car shipment of freight from one consignor to one consignee.

CAR VELOCITY Car velocity is an average speed calculation, expressed in miles per day, of the car movements from time of release at one location to arrival at the destination.

CLASS I RAILROAD As determined by the Surface Transportation Board, a freight railroad with annual operating revenues that exceed a threshold indexed to a base of $250 million in 1991 U.S. dollars. The threshold in 2010 was $398.7 million.

CONTAINER A large, weatherproof box designed for shipping and/or transferring freight between rail, truck or marine modes. Specialized containers are equipped with heating and cooling capabilities for perishable products.

APPENDIX C

FRA TRAIN ACCIDENTS PER MILLION TRAIN-MILES The number of accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric meet or exceed the FRA (U.S. Federal Railroad Administration) U.S. dollar reporting threshold, which is adjusted annually.

FIRST-MILE/LAST-MILE FOCUS CN continues to improve its first-mile/last-mile activities, which is where the Company has the most direct contact with its custom-ers. The first-mile/last-mile focus ranges from car delivery and pick-up to measuring Company performance against various switching-window and billing benchmarks. These initiatives complement CN's continuing improvement in transit times and are an integral part of the Company's Service Excellence vision for customers.

FREIGHT REVENUE PER RTM The amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.

GROSS TON MILE (GTM) The number of tons behind the locomotives (cars and contents) including Company service equipment multiplied by the miles of road moved from originating to destination stations on a designated railroad.

INTERMODAL SERVICE In railroad transportation, the movement of trailers or containers on railroad freight cars.

LINEHAUL The movement of trains between terminals and stations on the main or branch lines of the road, exclusive of switching movements.

MAIN TRACK A track extending through and between stations upon which trains are operated.

MIlES OF ROAD OPERATED The total length of all rail lines over which CN operates, excluding track on which the Company has haulage rights.

ON-TIME PERFORMANCE The ability to meet customer requirements as to pick-up and delivery schedule.

OPERATING RATIO The ratio of operating expenses to operating revenues.

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GLOSSARY

PRECISION ENGINEERING A major CN initiative to consolidate many separate engineering processes into a single information system. In the next few years, engineering vehicles will be equipped with laptop computers running the new Precision Engineering application. The system will enable employees to access and input critical information in real time such as plant condition and the completion of inspections. The end result is improved quality and execution of engineering inspections and repairs.

PRECISION RAILROAD The Precision Railroad is an evolution of CN's scheduled railroad. Its emphasis is on planning and predictability, to ensure car performance according to a scheduled service plan with a focus on individual carloads. The Precision Railroad integrates all processes and involves all departments.

RELOAD CENTRE A transfer facility enabling the railway to expand market share through truck-to-rail service.

REVENUE TON MILE (RTM) The movement of a ton of freight over one mile for revenue.

RIGHT-OF-WAY A strip of land of various widths upon which a rail track is built.

ROlLLNG STOCK Transportation equipment on wheels, especially locomotives and freight cars.

ROUTE MILES The miles of right-of-way owned or leased and operated by the designated railroad. Route miles exclude mainline trackage operated under trackage rights. In multiple track territories only one mainline track counts as route miles.

SCHEDULED RAILROAD Running a scheduled railroad is a disciplined process that handles individual car movements according to a specific plan where possible, and that manages expectations to meet agreed-upon customer commitments.

SIDING A track auxiliary to the main track for meeting or passing trains, or in the case of industrial siding, a track serving various industrial customers.

SUPPLY-CHAIN COLLABORATION CN's comprehensive supply-chain approach helps the railway improve its service to customers and enables them to grow their businesses. For example, the Company has established service agreements with major ports and intermodal terminal operators throughout Canada.

TRACK OPERATED First main track only. Excludes second and other main track, passing tracks and crossovers, industrial tracks, spurs and yard tracks.

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TRAIN-MIlES A measure reflecting the distance traveled by the lead locomotive on each train operating over the Company's track.

TRANSPORT CANADA (TC) Transport Canada is the Canadian federal government department responsible for most of the transportation policies, programs and goals set by the Government of Canada to ensure that the national transportation system is safe, efficient and accessible to all its users. Its mission is to serve the public interest through the promotion of a safe and secure, efficient and environmentally responsible transportation system in Canada.

TRANSPORTATION SAFETY BOARD OF CANADA (TSB) The TSB is an independent agency created to advance transportation safety through the investigation of occurrences in the marine, pipeline, rail and air modes of transportation.

TRIP PLAN A trip plan is a detailed chain of train handling events describing how a car (or cars) can be handled from the shipper's door to the consignee's door. Trip plans are expressed in hours and are tailored to a specific customer location, day of week and time of release.

UNIT TRAIN A train with a fixed, coupled consist of cars operated continuously in shuttle service under load from origin and delivered intact at destination and returning usually for reloading at the same origin.

U.S. FEDERAL RAILROAD ADMINISTRATION (FRA) The FRA is a regulatory agency whose purpose is to promulgate and enforce rail safety regulations; administer railroad assistance programs; conduct research and development in support of improved railroad safety and national rail transportation policy; provide for the rehabilitation of Northeast Corridor rail passenger service; and consolidate government support for rail transportation activities.

U.S. SURFACE TRANSPORTATION BOARD (STB) The STB is a regulatory agency with jurisdiction over railway rate and service issues and rail restructuring, including mergers and sales.

WAYBILL The document covering a shipment and showing the forwarding and receiving stations, the name of consignor and consignee, the car initials and number, the routing, the description and weight of the commodity, instructions for special services, the rate, total charges, advances and the waybill reference for previous services, and the amount prepaid.

YARD A system of tracks within defined limits, designed for switching services.

YARD DWELL Yard dwell is the average duration, expressed in hours, that cars spend in a specific operating terminal.

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