

CANADIAN NATIONAL RAILWAY CO  
Form 6-K  
July 29, 2005

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**FORM 6-K**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934

For the month of July 2005

Commission File Number: 001-02413

**Canadian National Railway Company**

(Translation of registrant's name into English)

**935 de la Gauchetiere Street West**  
**Montreal, Quebec**  
**Canada H3B 2M9**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes

No

If  Yes  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Canadian National Railway Company

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Item 1

**CANADIAN NATIONAL RAILWAY COMPANY  
PRESS RELEASE**

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North America's Railroad

**FOR IMMEDIATE RELEASE**

Stock symbols: TSX: CNR / NYSE: CNI

[www.cn.ca](http://www.cn.ca)

**CN raises full-year 2005 earnings outlook as second-quarter diluted earnings per share rise 30 per cent to \$1.47**

MONTREAL, July 20, 2005 CN today reported its financial and operating results for the second quarter and six-month period ended June 30, 2005.

**Financial highlights, and increased full-year 2005 earnings forecast**

Diluted earnings per share of \$1.47 for the second quarter of 2005, up 30 per cent from \$1.13 reported for second-quarter 2004;

Second-quarter 2005 net income of \$416 million, an increase of 28 per cent from second-quarter 2004 net income of \$326 million;

Second-quarter 2005 operating income of \$713 million, an increase of 24 per cent;

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Record second-quarter operating ratio of 61.2 per cent, a 4.3-percentage point improvement over second-quarter 2004 performance;

Free cash flow of \$787 million for the first half of 2005, compared with \$587 million for the comparable period of 2004;<sup>(1)</sup>

Strong results and solid outlook prompt management to increase full-year 2005 earnings guidance □ diluted earnings per share for the year now expected to rise in the range of 20 to 25 per cent, compared with previous guidance of 10-15 per cent increase over 2004 EPS of \$4.34.

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### **CANADIAN NATIONAL RAILWAY COMPANY PRESS RELEASE**

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E. Hunter Harrison, president and chief executive officer of CN, said: □CN had a terrific quarter and first half of the year, demonstrating once again the power of the company□s business model □ precision railroading and the pursuit of profitable, sustainable growth □ along with the strength of our freight franchise. A key measure of our success was a record second-quarter operating ratio of 61.2 per cent.

□On the revenue side, CN□s core merchandise businesses □ including forest products, metals and minerals, and petroleum and chemicals □ continued to register solid gains during the quarter. CN□s intermodal business also performed well, benefiting from strong container imports via the Port of Vancouver, as did our coal business, which saw shipments from new metallurgical-coal mines in Western Canada. Grain and fertilizers revenues were affected by decreased availability of high-quality grain in Canada, while our automotive business experienced lower production at some of the southern Ontario production facilities we serve.

□Our free cash flow performance was outstanding and will permit us to reward shareholders with a new share buy-back program effective July 25, 2005. (See accompanying press release.) Under this program, CN plans to purchase for cancellation up to 16 million, or about six per cent, of the issued and outstanding shares of the company.□

Second-quarter revenues increased by 10 per cent to \$1,838 million, largely owing to freight rate increases, which included a higher fuel surcharge as a result of increases in crude oil prices, and the inclusion of revenues from the rail and related holdings of Great Lakes Transportation LLC (GLT) and BC Rail. Partly offsetting these gains was the unfavourable \$80-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated revenues.

CN consolidated the operations of GLT and BC Rail on May 10, 2004, and July 14, 2004, respectively.

Operating expenses for the second quarter of 2005 increased by three per cent to \$1,125 million, largely as a result of increased fuel costs and the inclusion of GLT and BC Rail expenses. These expense increases were partly offset by the favourable \$50-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated expenses, and lower labour and fringe benefits expenses.

The continued appreciation of the Canadian dollar reduced the company□s second-quarter 2005 net income by approximately \$15 million.

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**CANADIAN NATIONAL RAILWAY COMPANY  
PRESS RELEASE**

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First-half 2005 financial results

Net income for the first six months of 2005 was \$715 million, or \$2.51 per diluted share, compared with \$536 million, or \$1.85 per diluted share, for the comparable period of 2004.

Operating income for the first half of 2005 rose 28 per cent to \$1,239 million.

CN's operating ratio for the first six months of 2005 was 65.0 per cent, an improvement of 3.7 percentage points.

Revenues for the first half of 2005 rose 14 per cent to \$3,544 million, mainly due to freight rate increases, the inclusion of GLT and BC Rail revenues, and a return to normal intermodal volumes following the first quarter 2004 Canadian Auto Workers (CAW) strike. Partly offsetting these gains was the unfavourable \$140-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated revenues.

Operating expenses increased eight per cent to \$2,305 million, primarily due to increased fuel costs and the inclusion of GLT and BC Rail expenses, partly offset by the favourable \$85-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated expenses.

The continued appreciation of the Canadian dollar reduced the company's first-half 2005 net income by approximately \$30 million.

In the first quarter of 2004, the CAW strike reduced CN's operating income and net income by \$35 million and \$24 million, respectively.

Increased full-year 2005 earnings guidance

Harrison said: "CN's strong first-half financial and operating performance, along with continued improvements in pricing, gives management confidence that the company will exceed previous earnings guidance for full-year 2005.

CN now expects 2005 diluted earnings per share will rise in the range of 20 to 25 per cent over 2004 earnings of \$4.34 per diluted share. This new earnings outlook compares with the Company's previous earnings growth forecast of 10 to 15 per cent for 2005. Our employees are performing strongly and we expect to continue to deliver solid benefits to shareholders."

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**CANADIAN NATIONAL RAILWAY COMPANY  
PRESS RELEASE**

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The financial results in this press release are reported in Canadian dollars and were determined on the basis of U.S. generally accepted accounting principles (U.S. GAAP).

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

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risks and uncertainties and that its results could differ materially from those expressed or implied in such statements. Reference should be made to CN's most recent Form 40-F filed with the United States Securities and Exchange Commission, its Annual Information Form filed with the Canadian securities regulators, its 2004 Annual and 2005 Quarterly Consolidated Financial Statements and notes thereto, and Management's Discussion and Analysis, for a summary of major risks.

Canadian National Railway Company spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key cities of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, St. Louis, and Jackson, Miss., with connections to all points in North America.

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Item 2

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

(In millions, except per share data)

	Three months ended June 30		Six months ended June 30	
	2005	2004(1)	2005	2004(1)
	(Unaudited)			
Revenues	\$ 1,838	\$ 1,665	\$ 3,544	\$ 3,103
Operating expenses	1,125	1,090	2,305	2,133
Operating income	713	575	1,239	970
Interest expense	(78)	(68)	(153)	(140)
Other loss	(5)	(23)	(9)	(36)

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Income before income taxes	<b>630</b>	484	<b>1,077</b>	794
Income tax expense	<b>(214)</b>	(158)	<b>(362)</b>	(258)
<b>Net income</b>	<b>\$ 416</b>	\$ 326	<b>\$ 715</b>	\$ 536
<b>Earnings per share</b>				
Basic	<b>\$ 1.50</b>	\$ 1.14	<b>\$ 2.55</b>	\$ 1.88
Diluted	<b>\$ 1.47</b>	\$ 1.13	<b>\$ 2.51</b>	\$ 1.85
<b>Weighted-average number of shares</b>				
Basic	<b>278.1</b>	284.9	<b>280.0</b>	284.7
Diluted	<b>283.0</b>	289.2	<b>285.2</b>	289.0

See accompanying notes to consolidated financial statements.

(1) Includes GLT as of May 10, 2004. (See Note 2 - Acquisitions)

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

(In millions)

	Three months ended June 30			Six months ended June 30		
	2005	2004(1)	Variance Fav (Unfav)	2005	2004(1)	Variance Fav (Unfav)
<i>(Unaudited)</i>						
<b>Revenues</b>						
Petroleum and chemicals	\$ 271	\$ 259	5%	\$ 546	\$ 509	7%
Metals and minerals	214	184	16%	413	318	30%
Forest products	450	369	22%	854	689	24%
Coal	97	74	31%	176	141	25%
Grain and fertilizers	260	274	(5%)	536	530	1%
Intermodal	313	287	9%	600	515	17%
Automotive	139	143	(3%)	261	273	(4%)
Other items	94	75	25%	158	128	23%
	<b>1,838</b>	1,665	10%	<b>3,544</b>	3,103	14%

**Operating expenses**

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Labor and fringe benefits	<b>436</b>	466	6%	<b>935</b>	885	(6%)
Purchased services and material	<b>196</b>	181	(8%)	<b>402</b>	371	(8%)
Depreciation and amortization	<b>158</b>	150	(5%)	<b>314</b>	292	(8%)
Fuel	<b>179</b>	123	(46%)	<b>345</b>	245	(41%)
Equipment rents	<b>53</b>	68	22%	<b>100</b>	131	24%
Casualty and other	<b>103</b>	102	(1%)	<b>209</b>	209	-
	<b>1,125</b>	1,090	(3%)	<b>2,305</b>	2,133	(8%)

**Operating income**     \$   **713**     \$   575                      24%     \$   **1,239**     \$   970                      28%

**Operating ratio**                      **61.2%**                      65.5%                      4.3                      **65.0%**                      68.7%                      3.7

See accompanying notes to consolidated financial statements.

(1) Includes GLT as of May 10, 2004. (See Note 2 - Acquisitions)

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

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

(In millions)

	<b>June 30 2005</b>	December 31 2004	June 30 2004
	<i>(Unaudited)</i>		<i>(Unaudited)</i>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ <b>155</b>	\$   147	\$   135
Accounts receivable (Note 4)	<b>662</b>	793	617
Material and supplies	<b>187</b>	127	169
Deferred income taxes	<b>181</b>	364	102
Other	<b>279</b>	279	260
	<b>1,464</b>	1,710	1,283

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Properties	<b>20,057</b>	19,715	19,789
Intangible and other assets	<b>918</b>	940	898
<hr/>			
<b>Total assets</b>	<b>\$ 22,439</b>	\$ 22,365	\$ 21,970
<hr/>			
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued charges	<b>\$ 1,577</b>	\$ 1,605	\$ 1,485
Current portion of long-term debt (Note 4)	<b>83</b>	578	256
Other	<b>82</b>	76	70
<hr/>			
	<b>1,742</b>	2,259	1,811
Deferred income taxes	<b>4,910</b>	4,723	5,129
Other liabilities and deferred credits	<b>1,499</b>	1,513	1,471
Long-term debt (Note 4)	<b>5,034</b>	4,586	4,568
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<b>Shareholders' equity:</b>			
Common shares	<b>4,640</b>	4,706	4,704
Accumulated other comprehensive loss	<b>(106)</b>	(148)	(35)
Retained earnings	<b>4,720</b>	4,726	4,322
<hr/>			
	<b>9,254</b>	9,284	8,991
<hr/>			
<b>Total liabilities and shareholders' equity</b>	<b>\$ 22,439</b>	\$ 22,365	\$ 21,970

See accompanying notes to consolidated financial statements.

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

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

(In millions)

Three months ended June 30		Six months ended June 30	
2005	2004(1)	2005	2004(1)



	<i>(Unaudited)</i>			
<b>Common shares (2)</b>				
Balance, beginning of period	\$ 4,715	\$ 4,682	\$ 4,706	\$ 4,664
Stock options exercised and other	15	22	101	40
Share repurchase program (Note 4)	(90)	-	(167)	-
Balance, end of period	\$ 4,640	\$ 4,704	\$ 4,640	\$ 4,704
<b>Accumulated other comprehensive loss</b>				
Balance, beginning of period	\$ (91)	\$ (111)	\$ (148)	\$ (129)
Other comprehensive income (loss):				
Unrealized foreign exchange loss on translation of U.S. dollar denominated long-term debt designated as a				
hedge of the net investment in U.S. subsidiaries	(40)	(97)	(77)	(129)
Unrealized foreign exchange gain on translation of the net investment in foreign operations	49	153	93	207
Increase (decrease) in unrealized holding gains on fuel				
derivative instruments (Note 6)	(31)	23	47	43
Unrealized holding gain on interest rate derivatives	-	33	-	18
Other comprehensive income (loss) before income taxes	(22)	112	63	139
Income tax recovery (expense)	7	(36)	(21)	(45)
Other comprehensive income (loss)	(15)	76	42	94
Balance, end of period	\$ (106)	\$ (35)	\$ (106)	\$ (35)
<b>Retained earnings</b>				
Balance, beginning of period	\$ 4,684	\$ 4,052	\$ 4,726	\$ 3,897
Net income	416	326	715	536
Share repurchase program (Note 4)	(311)	-	(581)	-
Dividends	(69)	(56)	(140)	(111)
Balance, end of period	\$ 4,720	\$ 4,322	\$ 4,720	\$ 4,322

See accompanying notes to consolidated financial statements.

- (1) Includes GLT as of May 10, 2004. (See Note 2 - Acquisitions)
- (2) During the three and six months ended June 30, 2005, the Company issued 0.3 million and 2.3 million common shares, respectively, as a result of stock options exercised. At June 30, 2005, the Company had 275.4 million common shares outstanding.

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

(In millions)

	Three months ended June 30		Six months ended June 30	
	2005	2004(1)	2005	2004(1)
<i>(Unaudited)</i>				
<b>Operating activities</b>				
Net income	\$ 416	\$ 326	\$ 715	\$ 536
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	159	152	316	295
Deferred income taxes	162	87	298	142
Equity in earnings of English Welsh and Scottish Railway	(1)	3	(6)	8
Other changes in:				
Accounts receivable	70	(68)	134	(60)
Material and supplies	(8)	(3)	(59)	(38)
Accounts payable and accrued charges	(60)	37	(81)	(29)
Other net current assets and liabilities	53	48	43	19
Other	(6)	8	8	22
Cash provided from operating activities	785	590	1,368	895
<b>Investing activities</b>				
Net additions to properties	(318)	(259)	(471)	(384)
Acquisition of Great Lakes Transportation LLC's railroads and related holdings (Note 2)	-	(553)	-	(553)
Other, net	69	31	73	172
Cash used by investing activities	(249)	(781)	(398)	(765)
Dividends paid	(69)	(56)	(140)	(111)
<b>Financing activities</b>				
Issuance of long-term debt	473	3,530	1,093	4,021
Reduction of long-term debt	(596)	(3,340)	(1,247)	(4,066)
Issuance of common shares	10	17	80	31
Repurchase of common shares	(401)	-	(748)	-
Cash provided from (used by) financing activities	(514)	207	(822)	(14)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(47)</b>	<b>(40)</b>	<b>8</b>	<b>5</b>
Cash and cash equivalents, beginning of period	202	175	147	130
<b>Cash and cash equivalents, end of period</b>	<b>\$ 155</b>	<b>\$ 135</b>	<b>\$ 155</b>	<b>\$ 135</b>

**Supplemental cash flow information**

Net cash receipts from customers and other	<b>\$ 1,834</b>	\$ 1,619	<b>\$ 3,720</b>	\$ 3,023
Net cash payments for:				
Employee services, suppliers and other expenses	<b>(892)</b>	(841)	<b>(2,005)</b>	(1,772)
Interest	<b>(52)</b>	(54)	<b>(143)</b>	(128)
Workforce reductions	<b>(21)</b>	(24)	<b>(52)</b>	(56)
Personal injury and other claims	<b>(21)</b>	(19)	<b>(48)</b>	(55)
Pensions	<b>(52)</b>	(60)	<b>(54)</b>	(66)
Income taxes	<b>(11)</b>	(31)	<b>(50)</b>	(51)
<hr/>				
Cash provided from operating activities	<b>\$ 785</b>	\$ 590	<b>\$ 1,368</b>	\$ 895

See accompanying notes to consolidated financial statements.  
(1) Includes GLT as of May 10, 2004. (See Note 2 - Acquisitions)

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**


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**Note 1 □ Basis of presentation**

In management's opinion, the accompanying unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at June 30, 2005 and December 31 and June 30, 2004, its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2005 and 2004.

These interim consolidated financial statements and notes have been prepared using accounting policies consistent with those used in preparing the Company's 2004 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these interim consolidated financial statements and notes should be read in conjunction with the Company's Interim Management's Discussion and Analysis and Annual Consolidated Financial Statements and notes thereto.

**Note 2 □ Acquisitions**

Great Lakes Transportation LLC's railroads and related holdings (GLT) and BC Rail Partnership and the former BC Rail Ltd. (collectively BC Rail) were acquired and consolidated effective May 10, 2004 and July 14, 2004, respectively. Accordingly, the Company's results of operations for the quarter and six months ended June 30, 2004 included the results of operations of GLT as of May 10, 2004 and excluded those of BC Rail.

The Company's final cost to acquire GLT of U.S.\$395 million (Cdn\$547 million) and BC Rail of \$991 million, included purchase price adjustments and transaction costs. By the second quarter of 2004, the Company had paid U.S.\$399 million (Cdn\$553 million) for the acquisition of GLT. The Company subsequently received Cdn\$6 million for purchase price adjustments finalized in the third quarter.

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The Company had estimated, on a preliminary basis, the fair value of GLT's and BC Rail's assets acquired, owned and leased, and liabilities assumed at acquisition based on then current available information. The Company has since finalized the allocations of the GLT and BC Rail purchase price and has not made any significant adjustments to the preliminary purchase price allocations as presented in Note 3 – Acquisitions, of the Company's 2004 Annual Consolidated Financial Statements.

For comparative purposes only, if the Company had acquired both GLT and BC Rail on January 1, 2004, based on their respective historical amounts, net of the amortization of the difference between the Company's cost to acquire GLT and BC Rail and their respective net assets (based on preliminary estimates of the fair value of GLT's and BC Rail's assets and liabilities), revenues, net income, and basic and diluted earnings per share would have been \$1,761 million, \$338 million, \$1.19 per basic share and \$1.17 per diluted share, respectively, for the three months ended June 30, 2004 and \$3,318 million, \$550 million, \$1.93 per basic share and \$1.90 per diluted share, respectively, for the six months ended June 30, 2004.

The pro forma figures for both GLT and BC Rail do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

### **Note 3 – Note receivable from English Welsh and Scottish Railway (EWS)**

On April 28, 2005, EWS fully redeemed the Company's 8% note receivable due 2009. The Company received £26 million (Cdn\$61 million), which included principal and accrued but unpaid interest at the date of redemption.

### **Note 4 – Financing activities**

In January 2005, the Company repaid its borrowings of U.S.\$90 million (Cdn\$108 million) outstanding at December 31, 2004 under its U.S.\$1,000 million revolving credit facility. On March 29, 2005, the Company refinanced, by way of amendment, its revolving credit facility, which was scheduled to mature in December 2005, for a five-year period to March 2010. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program. The credit facility 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 amended credit facility agreement retains customary limitations on debt as a percentage of total capitalization, but eliminates the requirement for maintaining tangible net worth above pre-defined levels. The Company has been in compliance with these covenants throughout the period. As at June 30, 2005, the Company had letters of credit of \$301 million under its revolving credit facility and outstanding borrowings of U.S.\$323 million (Cdn\$397 million) under its commercial paper program.

In May 2005, the Company repaid U.S.\$100 million (Cdn\$125 million) of 7.75% 10-year Notes with cash on hand.

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## **CANADIAN NATIONAL RAILWAY COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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The Company has an accounts receivable securitization program, expiring in June 2006, under which it may sell, on a revolving basis, a maximum of \$500 million (\$450 million prior to February 2005) of eligible freight trade and other receivables outstanding at any point in time, to an unrelated trust. The Company has a contingent residual interest of approximately 10% of receivables sold, which is recorded in Other current assets. At June 30, 2005, pursuant to the agreement, \$492 million had been sold, compared to \$445 million at December 31, 2004.

On July 20, 2005, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 16.0 million common shares between July 25, 2005 and July 24, 2006 pursuant to a normal course issuer bid, at prevailing market prices.

In the second quarter of 2005, the Company completed its 14.0 million share repurchase program, which began November 1, 2004, repurchasing the remaining 5.4 million common shares for \$401 million, at an average price of \$74.30 per share. The total cost of the program was \$1,021 million (average price per share of \$72.94), with 10.0 million shares repurchased in 2005 for \$748 million (average price per share of \$74.78).

**Note 5 □ Stock-based compensation**

For the three and six months ended June 30, 2005 and 2004, the Company recorded total compensation cost for awards under all plans of \$13 million and \$41 million, respectively, and \$21 million and \$25 million, respectively, for the same periods in 2004.

*(a) Restricted share units*

In the first half of 2005, the Company granted approximately 0.4 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted are scheduled for payout after three years and vest upon the attainment of targets relating to return on invested capital over the three-year period and to the Company's share price during the three-month period ending December 31, 2007. At June 30, 2005, the Company had approximately 1.6 million RSUs outstanding under the Plan. For the three and six months ended June 30, 2005, the Company recorded compensation cost of \$12 million and \$31 million, respectively, compared to \$4 million and \$7 million, for the same 2004 periods.

*(b) Stock options*

In the first half of 2005, the Company granted approximately 0.7 million conventional stock options to designated senior management employees, that vest over a period of four years of continuous employment. The total number of options outstanding at June 30, 2005, including conventional, performance, and performance-accelerated options was 11.5 million. For the three and six months ended June 30, 2005, the Company recorded compensation cost of \$4 million and \$11 million, respectively, compared to \$3 million and \$5 million, respectively, for the same 2004 periods. At June 30, 2005, 8.1 million options remained authorized for future issuances.

*(c) Vision 2008 Share Unit Plan*

In the first quarter of 2005, the Board of Directors of the Company approved a special share unit plan with a four-year term to December 2008, entitling designated senior management employees to receive payout in cash in January 2009. The Company granted 0.4 million share units which vest conditionally upon the attainment of targets relating to the Company's share price during the six-month period ending December 31, 2008. Payout is also conditional upon the attainment of targets relating to return on invested capital over the four-year period and to the Company's share price during the 20-day period ending on December 31, 2008. Award payout will be equal to the number of share units vested on December 31, 2008 multiplied by the Company's 20-day average share price ending on such date. Due to the nature of the vesting conditions, no compensation cost was recorded for the three and six months ended June 30, 2005.

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the intrinsic value method for cash settled awards. If compensation cost had been determined based upon fair values at the date of grant for awards under all plans, the Company's pro forma net income and earnings per share would have been as follows:

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
<i>In millions, except per share data</i>				
Net income, as reported	\$ 416	\$ 326	\$ 715	\$ 536
Add (deduct) compensation cost, net of applicable taxes, determined under:				
Fair value method for all awards granted after Jan 1, 2003 (SFAS No. 123)	10	6	31	10
Intrinsic value method for performance-based awards granted prior to 2003 (APB 25)	-	9	-	9
Fair value method for all awards (SFAS No. 123)	(16)	(22)	(43)	(34)
Pro forma net income	\$ 410	\$ 319	\$ 703	\$ 521
Basic earnings per share, as reported	\$ 1.50	\$ 1.14	\$ 2.55	\$ 1.88
Basic earnings per share, pro forma	\$ 1.47	\$ 1.12	\$ 2.51	\$ 1.83
Diluted earnings per share, as reported	\$ 1.47	\$ 1.13	\$ 2.51	\$ 1.85
Diluted earnings per share, pro forma	\$ 1.45	\$ 1.10	\$ 2.46	\$ 1.80

Compensation cost related to stock option awards granted in the current period under the fair value based approach was calculated using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended June 30		Six months ended June 30	
	2005	2004(1)	2005	2004(1)
Expected option life (years)	5.2	-	5.2	-
Risk-free interest rate	3.19%	-	3.55%	-
Expected stock price volatility	25%	-	25%	-
Average dividend per share	\$ 1.00	-	\$ 1.00	-
Weighted average fair value of options granted	\$ 18.71	\$ -	\$ 18.48	\$ -

(1) In the first half of 2004, the Company did not grant any stock option awards.

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**


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**Note 6 ☐ Derivative instruments***Fuel*

At June 30, 2005, the Company had hedged approximately 48% of the estimated remaining 2005 fuel consumption, representing approximately 98 million U.S. gallons at an average price of U.S.\$0.79 per U.S. gallon, and approximately 17% of the estimated 2006 fuel consumption, representing approximately 69 million U.S. gallons at an average price of U.S.\$0.89 per U.S. gallon. These derivative instruments are carried at market value on the balance sheet and are accounted for as cash flow hedges whereby the effective portion of the cumulative change in the market value of the derivative instruments has been recorded in Other comprehensive income (loss). At June 30, 2005, Accumulated other comprehensive loss included unrealized gains of \$139 million, \$94 million after tax (\$92 million, \$62 million after tax at December 31, 2004), of which \$133 million relates to derivative instruments that will mature within the next twelve months and are presented in Other current assets.

**Note 7 ☐ Pensions and other post-retirement benefits**

For the three and six months ended June 30, 2005 and 2004, the components of net periodic benefit cost for pensions and other post-retirement benefits were as follows:

**(a) Components of net periodic benefit cost for pensions**

<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Service cost	\$ 35	\$ 29	\$ 71	\$ 58
Interest cost	186	181	371	361
Amortization of prior service cost	5	5	10	10
Expected return on plan assets	(221)	(208)	(442)	(416)
Recognized net actuarial loss	1	1	1	1
<i>Net periodic benefit cost</i>	\$ 6	\$ 8	\$ 11	\$ 14

**(b) Components of net periodic benefit cost for post-retirement benefits**

<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004

Service cost	\$	2	\$	2	\$	4	\$	4
Interest cost		5		5		10		9
Amortization of prior service cost		1		1		1		2
Recognized net actuarial loss (gain)		(1)		1		(2)		1
<i>Net periodic benefit cost</i>	\$	7	\$	9	\$	13	\$	16

For the 2005 funding year, the Company expects to make total contributions of \$120 million for all its defined benefit plans of which \$54 million had been made at June 30, 2005.

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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**Note 8 □ Major commitments and contingencies**

**A. Commitments**

As at June 30, 2005, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives and other equipment at an aggregate cost of \$554 million (\$194 million at December 31, 2004). The Company also had outstanding information technology service contracts of \$14 million and agreements with fuel suppliers to purchase approximately 78% of the estimated remaining 2005 volume, 50% of its anticipated 2006 volume, and 12% of its anticipated 2007 volume at market prices prevailing on the date of the purchase.

**B. Contingencies**

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational disease and damage to property.

In Canada, employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury. Accordingly, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and administration costs. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

In the United States, employee work-related injuries, including occupational disease claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA), which requires either the finding of fault through the U.S. jury system or individual settlements, and represent a major expense for the railroad industry. The Company follows an actuarial-based approach and accrues the expected cost for personal injury and property damage claims and asserted occupational disease claims, based on actuarial estimates of their ultimate cost. A liability for the minimum amount of unasserted occupational disease claims is also accrued to the extent they can be reasonably estimated. The amount recorded reflects a 25-year horizon, as the Company expects that a large majority of these cases will be received over such period. An actuarial study is conducted on an annual basis by an independent actuarial firm. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.



As at June 30, 2005, the Company had aggregate reserves for personal injury and other claims of \$679 million (\$642 million at December 31, 2004). Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at June 30, 2005, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

**C. Environmental matters**

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations in Canada and the United States concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred for environmental matters in the next several years, based on known information, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

- (i) the lack of specific technical information available with respect to many sites;
- (ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;
- (iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;
- (iv) the ability to recover costs from any third parties with respect to particular sites; and

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at June 30, 2005, the Company had aggregate accruals for environmental costs of \$117 million (\$113 million as at December 31, 2004).

**D. Guarantees and indemnifications**

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which extend over the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety bonds, and indemnifications that are customary for the type of transaction or for the railway business.

Effective January 1, 2003, the Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. In addition, where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized.

*Guarantee of residual values of operating leases*

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2006 and 2012, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At June 30, 2005, the maximum exposure in respect of these guarantees was \$96 million of which \$8 million has been recorded. Of that amount, \$6 million represents the expected cash outlay for such guarantees, while the remaining \$2 million represents the Company's obligation to stand ready and honor the guarantees that were entered into subsequent to January 1, 2003. There are no recourse provisions to recover any amounts from third parties.

*Other guarantees*

The Company, including certain of its subsidiaries, has granted irrevocable standby letters of credit and surety bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at June 30, 2005, the maximum potential liability under these guarantees was \$449 million of which \$358 million was for workers' compensation and other employee benefits and \$91 million was for equipment under leases and other. The Company has granted guarantees for which no liability has been recorded, as they relate to the Company's future performance.

As at June 30, 2005, the Company had not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any additional payments associated with these guarantees. The guarantee instruments mature at various dates between 2005 and 2010.

*CN Pension Plan, CN 1935 Pension Plan and BC Rail Ltd Pension Plan*

The Company has indemnified and held harmless the current trustee and the former trustee of the Canadian National Railways Pension Trust Funds, the trustee of the BC Rail Ltd Pension Trust Fund, and the respective officers, directors, employees and agents of such trustees, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of their obligations under the relevant trust agreements and trust deeds, including in respect of their reliance on authorized instructions of the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements or trust deeds. As at June 30, 2005, the Company had not recorded a liability associated with these indemnifications, as the Company does not expect to make any payments pertaining to these indemnifications.

*General indemnifications*

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to, (a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements; (b) contracts granting rights



Operating expenses					
Labor and fringe benefits	<b>442</b>	470	<b>954</b>	894	
Purchased services and material	<b>196</b>	181	<b>402</b>	371	
Depreciation and amortization	<b>139</b>	129	<b>275</b>	252	
Fuel	<b>179</b>	123	<b>345</b>	245	
Equipment rents	<b>53</b>	68	<b>100</b>	131	
Casualty and other	<b>103</b>	102	<b>209</b>	209	
<hr/>					
Total expenses	<b>1,112</b>	1,073	<b>2,285</b>	2,102	
<hr/>					
Operating income	<b>726</b>	592	<b>1,259</b>	1,001	
Interest expense	<b>(78)</b>	(68)	<b>(153)</b>	(140)	
Other loss	<b>(5)</b>	(23)	<b>(9)</b>	(36)	
<hr/>					
Income before income taxes	<b>643</b>	501	<b>1,097</b>	825	
Income tax expense	<b>(220)</b>	(163)	<b>(378)</b>	(268)	
<hr/>					
<b>Net income</b>	<b>\$ 423</b>	\$ 338	<b>\$ 719</b>	\$ 557	
<hr/>					
<b>Earnings per share</b>					
Basic	<b>\$ 1.52</b>	\$ 1.19	<b>\$ 2.57</b>	\$ 1.96	
Diluted	<b>\$ 1.50</b>	\$ 1.17	<b>\$ 2.52</b>	\$ 1.93	
<hr/>					
<b>Weighted-average number of shares</b>					
Basic	<b>278.1</b>	284.9	<b>280.0</b>	284.7	
Diluted	<b>282.8</b>	289.0	<b>285.1</b>	288.8	
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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

**A. Canadian GAAP financial statements (continued)**

**CONSOLIDATED BALANCE SHEET**

(In millions)

	<b>June 30</b>	December 31	June 30
	<b>2005</b>	2004	2004
	<i>(Unaudited)</i>		<i>(Unaudited)</i>
<b>Assets</b>			

**Current assets:**

Cash and cash equivalents	\$ 155	\$ 147	\$ 135
Accounts receivable	662	793	617
Material and supplies	187	127	169
Deferred income taxes	228	393	102
Other	142	194	170
	<b>1,374</b>	1,654	1,193
Properties	<b>17,059</b>	16,688	16,660
Intangible and other assets	<b>912</b>	929	885
<b>Total assets</b>	<b>\$ 19,345</b>	\$ 19,271	\$ 18,738

**Liabilities and shareholders' equity****Current liabilities:**

Accounts payable and accrued charges	\$ 1,577	\$ 1,605	\$ 1,485
Current portion of long-term debt	83	578	256
Other	82	76	70
	<b>1,742</b>	2,259	1,811
Deferred income taxes	<b>3,795</b>	3,591	3,927
Other liabilities and deferred credits	<b>1,474</b>	1,488	1,420
Long-term debt	<b>5,034</b>	4,586	4,568
<b>Shareholders' equity:</b>			
Common shares	<b>3,578</b>	3,587	3,578
Contributed surplus	<b>158</b>	164	166
Currency translation	<b>(78)</b>	(80)	-
Retained earnings	<b>3,642</b>	3,676	3,268
	<b>7,300</b>	7,347	7,012
<b>Total liabilities and shareholders' equity</b>	<b>\$ 19,345</b>	\$ 19,271	\$ 18,738

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

**A. Canadian GAAP financial statements (continued)****CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(In millions)</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<i>(Unaudited)</i>			
<b>Operating activities</b>				
Net income	\$ 423	\$ 338	\$ 719	\$ 557
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	140	131	277	255
Deferred income taxes	168	92	314	152
Equity in earnings of English Welsh and Scottish Railway	(1)	3	(6)	8
Other changes in:				
Accounts receivable	70	(68)	134	(60)
Material and supplies	(8)	(3)	(59)	(38)
Accounts payable and accrued charges	(60)	37	(81)	(29)
Other net current assets and liabilities	53	48	43	19
Other	-	12	27	31
Cash provided from operating activities	<b>785</b>	590	<b>1,368</b>	895
<b>Investing activities</b>				
Net additions to properties	(318)	(259)	(471)	(384)
Acquisition of Great Lakes Transportation LLC's railroads and related holdings	-	(553)	-	(553)
Other, net	69	31	73	172
Cash used by investing activities	<b>(249)</b>	(781)	<b>(398)</b>	(765)
Dividends paid	(69)	(56)	(140)	(111)
<b>Financing activities</b>				
Issuance of long-term debt	473	3,530	1,093	4,021
Reduction of long-term debt	(596)	(3,340)	(1,247)	(4,066)
Issuance of common shares	10	17	80	31
Repurchase of common shares	(401)	-	(748)	-
Cash provided from (used by) financing activities	<b>(514)</b>	207	<b>(822)</b>	(14)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(47)</b>	(40)	<b>8</b>	5
Cash and cash equivalents, beginning of period	<b>202</b>	175	<b>147</b>	130

<b>Cash and cash equivalents, end of period</b>	<b>\$ 155</b>	\$ 135	<b>\$ 155</b>	\$ 135
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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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**B. Reconciliation and discussion of significant differences between U.S. and Canadian GAAP**

**(i) Reconciliation of net income**

<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
<b>Net income □ U.S. GAAP</b>	<b>\$ 416</b>	\$ 326	<b>\$ 715</b>	\$ 536
Adjustments in respect of:				
Depreciation and amortization on difference in Properties	<b>19</b>	21	<b>39</b>	40
Stock-based compensation cost	<b>(6)</b>	(4)	<b>(19)</b>	(9)
Income tax expense on current period adjustments	<b>(6)</b>	(5)	<b>(16)</b>	(10)
<b>Net income □ Canadian GAAP</b>	<b>\$ 423</b>	\$ 338	<b>\$ 719</b>	\$ 557

**(ii) Reconciliation of significant balance sheet items**

<i>In millions</i>	<b>June 30 2005</b>	December 31 2004	June 30 2004
<b>Current assets - U.S. GAAP</b>	<b>\$ 1,464</b>	\$ 1,710	\$ 1,283
Derivative instruments	<b>(133)</b>	(81)	(87)
Deferred income taxes related to derivative instruments	<b>47</b>	29	-
Other	<b>(4)</b>	(4)	(3)
<b>Current assets - Canadian GAAP</b>	<b>\$ 1,374</b>	\$ 1,654	\$ 1,193
<b>Properties - U.S. GAAP</b>	<b>\$ 20,057</b>	\$ 19,715	\$ 19,789

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Property capitalization, net of depreciation	(2,923)	(2,952)	(3,054)
Cumulative effect of change in accounting policy	(75)	(75)	(75)
<b>Properties - Canadian GAAP</b>	<b>\$ 17,059</b>	\$ 16,688	\$ 16,660
<b>Intangible and other assets - U.S. GAAP</b>	<b>\$ 918</b>	\$ 940	\$ 898
Derivative instruments	(6)	(11)	(13)
<b>Intangible and other assets - Canadian GAAP</b>	<b>\$ 912</b>	\$ 929	\$ 885
<b>Deferred income tax liability - U.S. GAAP</b>	<b>\$ 4,910</b>	\$ 4,723	\$ 5,129
Cumulative effect of prior years' adjustments to income	(1,172)	(1,204)	(1,204)
Income taxes on current period Canadian GAAP adjustments to income	16	32	10
Income taxes on cumulative effect of change in accounting policy	(27)	(27)	(27)
Income taxes on translation of U.S. to Canadian GAAP adjustments	26	28	8
Income taxes on minimum pension liability adjustment	7	7	10
Income taxes on derivative instruments	2	(1)	(32)
Income taxes on settlement of interest rate swaps recorded in Other comprehensive loss	(4)	(4)	-
Income tax rate enactments	45	41	38
Other	(8)	(4)	(5)
<b>Deferred income tax liability - Canadian GAAP</b>	<b>\$ 3,795</b>	\$ 3,591	\$ 3,927

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**CANADIAN NATIONAL RAILWAY COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

**(ii) Reconciliation of significant balance sheet items (continued)**

<i>In millions</i>	<b>June 30 2005</b>	December 31 2004	June 30 2004
<b>Other liabilities and deferred credits - U.S. GAAP</b>	<b>\$ 1,499</b>	\$ 1,513	\$ 1,471
Stock-based compensation	-	-	(18)
Minimum pension liability	(22)	(22)	(30)



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Other		(3)	(3)	(3)
<b>Other liabilities and deferred credits - Canadian GAAP</b>	<b>\$ 1,474</b>	\$ 1,488	\$ 1,420	
<b>Common shares - U.S. GAAP</b>	<b>\$ 4,640</b>	\$ 4,706	\$ 4,704	
Capital reorganization	(1,300)	(1,300)	(1,300)	
Stock-based compensation	1	(18)	(9)	
Foreign exchange loss on convertible preferred securities	(12)	(12)	(12)	
Costs related to the sale of shares	33	33	33	
Share repurchase program	216	178	162	
<b>Common shares - Canadian GAAP</b>	<b>\$ 3,578</b>	\$ 3,587	\$ 3,578	
<b>Contributed surplus - U.S. GAAP</b>	<b>\$ -</b>	\$ -	\$ -	
Dividend in kind with respect to land transfers	(248)	(248)	(248)	
Costs related to the sale of shares	(33)	(33)	(33)	
Other transactions and related income tax effect	(18)	(18)	(18)	
Share repurchase program	(32)	(26)	(24)	
Capital reorganization	489	489	489	
<b>Contributed surplus - Canadian GAAP</b>	<b>\$ 158</b>	\$ 164	\$ 166	
<b>Accumulated other comprehensive loss - U.S. GAAP</b>	<b>\$ (106)</b>	\$ (148)	\$ (35)	
Unrealized foreign exchange loss on translation of				
U.S. to Canadian GAAP adjustments, net of applicable taxes	81	89	48	
Derivative instruments, net of applicable taxes	(94)	(62)	(67)	
Unamortized gain on settlement of interest rate swaps, net of applicable taxes	(8)	(8)	-	
Income tax rate enactments	34	34	34	
Minimum pension liability, net of applicable taxes	15	15	20	
<b>Currency translation - Canadian GAAP</b>	<b>\$ (78)</b>	\$ (80)	\$ -	
<b>Retained earnings - U.S. GAAP</b>	<b>\$ 4,720</b>	\$ 4,726	\$ 4,322	
Cumulative effect of prior years' adjustments to income	(1,889)	(1,928)	(1,928)	
Cumulative effect of change in accounting policy	(48)	(48)	(48)	
Current period adjustments to net income	4	39	21	
Share repurchase program	(184)	(152)	(138)	
Cumulative dividend on convertible preferred securities	(38)	(38)	(38)	
Capital reorganization	811	811	811	
Dividend in kind with respect to land transfers	248	248	248	
Other transactions and related income tax effect	18	18	18	
<b>Retained earnings - Canadian GAAP</b>	<b>\$ 3,642</b>	\$ 3,676	\$ 3,268	

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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***(iii) Consolidated statement of cash flows***

For the three and six months ended June 30, 2005 and 2004, cash provided from (used by) operating, investing and financing activities presented under U.S. and Canadian GAAP were the same.

***(iv) Discussion of the significant differences between U.S. and Canadian GAAP***

*Property capitalization*

Effective January 1, 2004, the Company changed its capitalization policy under Canadian GAAP, on a prospective basis, to conform with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3061 "Properties, Plant and Equipment." The change was made in response to the CICA Handbook Section 1100, "Generally Accepted Accounting Principles," issued in July 2003.

The Company's accounting for Properties under Canadian GAAP had been based on the rules and regulations of the Canadian Transportation Agency's (CTA) Uniform Classification of Accounts, which for railways in Canada, were considered Canadian GAAP prior to the issuance of Section 1100. Under the CTA rules, the Company capitalized only the material component of track replacement costs, to the extent it met the Company's minimum threshold for capitalization. In accordance with the CICA Handbook Section 3061 "Properties, Plant and Equipment," the Company now capitalizes the cost of labor, material and related overhead associated with track replacement activities provided they meet the Company's minimum threshold for capitalization. Also, all major expenditures for work that extends the useful life and/or improves the functionality of bridges, other structures and freight cars are capitalized.

This change effectively harmonizes the Company's Canadian and U.S. GAAP capitalization policy. However, since the change was applied prospectively, there continues to be a difference in depreciation and amortization expense between Canadian and U.S. GAAP relating to the difference in the amounts previously capitalized under Canadian and U.S. GAAP as at January 1, 2004.

*Interest expense*

In the first quarter of 2004, in anticipation of future debt issuances, the Company had entered into treasury lock transactions for a notional amount of U.S.\$380 million to fix the treasury component on these future debt issuances. Under U.S. GAAP, these derivatives were accounted for as cash flow hedges whereby the cumulative change in the market value of the derivative instruments was recorded in Other comprehensive loss. On July 9, 2004, upon the pricing and subsequent issuance of U.S.\$500 million 6.25% Debentures due 2034, the Company settled these treasury-rate locks and realized a gain of \$12 million. Under U.S. GAAP, this gain was recorded in Other comprehensive loss and will be amortized and recorded into income, as a reduction of interest expense, over the term of the debt based on the interest payment schedule. Under Canadian GAAP, this gain was recorded immediately into income, as a reduction of interest expense.

*Income tax expense*

The federal, provincial and state governments enact new corporate tax rates resulting in either lower or higher net tax liabilities under both U.S. and Canadian GAAP. The difference in the deferred income tax expense or recovery recorded is a function of the net deferred income tax liability position, which is larger under U.S. GAAP due essentially to the difference in the property capitalization policy prior to 2004. In addition, under U.S. GAAP, the resulting deferred income tax expense or recovery is recorded when the rates are enacted, whereas under Canadian GAAP, when they are substantively enacted.

*Stock-based compensation*

Under Canadian GAAP, effective January 1, 2003, the Company adopted the fair value based approach of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." The Company retroactively applied the fair value method of accounting to all awards of employee stock options granted, modified or settled on or after January 1, 2002. Under U.S. GAAP, effective January 1, 2003, the Company voluntarily adopted the recommendations of SFAS No. 123, "Accounting for Stock-Based Compensation," and applied the fair value based approach prospectively to all awards of employee stock options granted, modified or settled on or after January 1, 2003. Compensation cost attributable to employee stock options granted prior to January 1, 2003 continues to be a reconciling difference.

*Derivative instruments*

Under U.S. GAAP, pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," the Company records in its balance sheet the fair value of derivative instruments used in its hedging activities. Changes in the market value of these derivative instruments have been recorded in Accumulated other comprehensive loss, a separate component of Shareholders' equity. Effective for the Company's fiscal year beginning after October 1, 2006, Canadian GAAP will conform to the U.S. GAAP standard.

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)**

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*Minimum pension liability*

At each measurement date, if the Company's pension plans have an accumulated benefit obligation in excess of the fair value of the plan assets, under U.S. GAAP, this gives rise to an additional minimum pension liability. As a result, an intangible asset is recognized up to the amount of the unrecognized prior service cost and the difference is recorded in Accumulated other comprehensive loss, a separate component of Shareholders' equity. There are no requirements under Canadian GAAP to record a minimum pension liability adjustment.

*Convertible preferred securities*

In July 2002, the Convertible preferred securities (Securities) of the Company were converted into common shares. Prior to such date, the Securities were treated as equity under Canadian GAAP, whereas under U.S. GAAP they were treated as debt. Consequently, the initial costs related to the issuance of the Securities, net of amortization, which were previously deferred and amortized for U.S. GAAP, have since been reclassified to equity. Also, the interest on the Securities until July 2002 was treated as a dividend for Canadian GAAP but as interest expense for U.S. GAAP.

*Shareholders' equity*

As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of \$811 million as of June 30, 1995 through a reduction of the capital stock in the amount of \$1,300 million, and created a contributed surplus of \$489 million. Such reorganization within Shareholders' equity is not permitted under U.S. GAAP.

Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings.

Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Common shares.

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Under Canadian GAAP, the cost resulting from the repurchase of shares was allocated first to Common shares, then to Contributed surplus and finally to Retained earnings. Under U.S. GAAP, the excess has been allocated to Common shares followed by Retained earnings.

For Canadian and U.S. GAAP purposes, the Company designates the U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange loss from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange loss has been included as part of Accumulated other comprehensive loss, a separate component of Shareholders' equity, as required under SFAS No. 130, "Reporting Comprehensive Income." Effective for the Company's fiscal year beginning after October 1, 2006, Canadian GAAP will conform to the U.S. GAAP standard.

*Cumulative effect of change in accounting policy*

In 2003, under U.S. GAAP, in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," the Company changed its accounting policy for certain track structure assets to exclude removal costs as a component of depreciation expense where the inclusion of such costs would result in accumulated depreciation balances exceeding the historical cost basis of the assets. As a result, a cumulative benefit of \$75 million, or \$48 million after tax, was recorded for the amount of removal costs accrued in accumulated depreciation on certain track structure assets at January 1, 2003. Under Canadian GAAP, the recommendations of the CICA Handbook Section 3110, "Asset Retirement Obligations," which are similar to those under SFAS No. 143 (U.S. GAAP), were effective for the Company's fiscal year beginning January 1, 2004 and did not have an impact on the Canadian GAAP financial statements since removal costs, as a component of depreciation expense, have not resulted in accumulated depreciation balances exceeding the historical cost basis of the assets.

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

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	Three months ended June 30		Six months ended June 30	
	2005	2004(1)	2005	2004(1)
<i>(Unaudited)</i>				
<b>Statistical operating data</b>				
Freight revenues (\$ millions)	<b>1,744</b>	1,590	<b>3,386</b>	2,975
Gross ton miles (GTM) (millions)	<b>86,206</b>	83,179	<b>170,682</b>	161,132
Revenue ton miles (RTM) (millions)	<b>44,750</b>	43,187	<b>89,657</b>	84,481
Carloads (thousands)	<b>1,204</b>	1,145	<b>2,391</b>	2,122
Route miles (includes Canada and the U.S.)	<b>19,221</b>	17,898	<b>19,221</b>	17,898
Employees (end of period)	<b>22,462</b>	22,514	<b>22,462</b>	22,514
Employees (average during period)	<b>22,519</b>	22,192	<b>22,444</b>	21,759
<b>Productivity</b>				
Operating ratio (%)	<b>61.2</b>	65.5	<b>65.0</b>	68.7

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Freight revenue per RTM (cents)	<b>3.90</b>	3.68	<b>3.78</b>	3.52
Freight revenue per carload (\$)	<b>1,449</b>	1,389	<b>1,416</b>	1,402
Operating expenses per GTM (cents)	<b>1.31</b>	1.31	<b>1.35</b>	1.32
Labor and fringe benefits expense per GTM (cents)	<b>0.51</b>	0.56	<b>0.55</b>	0.55
GTM per average number of employees (thousands)	<b>3,828</b>	3,748	<b>7,605</b>	7,405
Diesel fuel consumed (U.S. gallons in millions)	<b>102</b>	98	<b>206</b>	193
Average fuel price (\$/U.S. gallon)	<b>1.66</b>	1.27	<b>1.60</b>	1.24
GTM per U.S. gallon of fuel consumed	<b>845</b>	849	<b>829</b>	835

**Safety indicators**

Injury frequency rate per 200,000 person hours	<b>2.1</b>	2.5	<b>2.3</b>	2.5
Accident rate per million train miles	<b>1.4</b>	1.2	<b>1.3</b>	1.3

**Financial ratios**

Debt to total capitalization ratio (% at end of period)	<b>35.6</b>	34.9	<b>35.6</b>	34.9
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(1) Includes GLT as of May 10, 2004.

Certain of the comparative statistical data and related productivity measures have been restated to reflect changes to estimated statistical data previously reported.

**CANADIAN NATIONAL RAILWAY COMPANY  
SUPPLEMENTARY INFORMATION (U.S. GAAP)**

	Three months ended June 30			Six months ended June 30		
	2005	2004(1)	Variance Fav (Unfav)	2005	2004(1)	Variance Fav (Unfav)
<i>(Unaudited)</i>						
<b>Revenue ton miles (millions)</b>						
Petroleum and chemicals	<b>7,617</b>	7,620	-	<b>15,675</b>	15,314	2%
Metals and minerals	<b>4,101</b>	4,179	(2%)	<b>8,394</b>	7,987	5%
Forest products	<b>10,833</b>	9,651	12%	<b>21,073</b>	18,450	14%
Coal	<b>3,799</b>	3,110	22%	<b>7,184</b>	6,297	14%

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Grain and fertilizers	<b>9,360</b>	9,985	(6%)	<b>19,728</b>	19,967	(1%)
Intermodal	<b>8,199</b>	7,737	6%	<b>15,962</b>	14,727	8%
Automotive	<b>841</b>	905	(7%)	<b>1,641</b>	1,739	(6%)

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	<b>44,750</b>	43,187		<b>89,657</b>	84,481	6%
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**Freight revenue / RTM (cents)**

<b>Total freight revenue per RTM</b>	<b>3.90</b>	3.68	6%	<b>3.78</b>	3.52	7%
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**Commodity groups:**

Petroleum and chemicals	<b>3.56</b>	3.40	5%	<b>3.48</b>	3.32	5%
Metals and minerals	<b>5.22</b>	4.40	19%	<b>4.92</b>	3.98	24%
Forest products	<b>4.15</b>	3.82	9%	<b>4.05</b>	3.73	9%
Coal	<b>2.55</b>	2.38	7%	<b>2.45</b>	2.24	9%
Grain and fertilizers	<b>2.78</b>	2.74	1%	<b>2.72</b>	2.65	3%
Intermodal	<b>3.82</b>	3.71	3%	<b>3.76</b>	3.50	7%
Automotive	<b>16.53</b>	15.80	5%	<b>15.90</b>	15.70	1%

**Carloads (thousands)**

Petroleum and chemicals	<b>148</b>	147	1%	<b>302</b>	294	3%
Metals and minerals	<b>237</b>	200	19%	<b>475</b>	296	60%
Forest products	<b>182</b>	161	13%	<b>363</b>	313	16%
Coal	<b>117</b>	100	17%	<b>221</b>	203	9%
Grain and fertilizers	<b>134</b>	144	(7%)	<b>278</b>	286	(3%)
Intermodal	<b>312</b>	313	-	<b>606</b>	574	6%
Automotive	<b>74</b>	80	(8%)	<b>146</b>	156	(6%)

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	<b>1,204</b>	1,145		<b>2,391</b>	2,122	13%
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**Freight revenue / carload (dollars)**

<b>Total freight revenue per carload</b>	<b>1,449</b>	1,389	4%	<b>1,416</b>	1,402	1%
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**Commodity groups:**

Petroleum and chemicals	<b>1,831</b>	1,762	4%	<b>1,808</b>	1,731	4%
Metals and minerals	<b>903</b>	920	(2%)	<b>869</b>	1,074	(19%)
Forest products	<b>2,473</b>	2,292	8%	<b>2,353</b>	2,201	7%
Coal	<b>829</b>	740	12%	<b>796</b>	695	15%
Grain and fertilizers	<b>1,940</b>	1,903	2%	<b>1,928</b>	1,853	4%
Intermodal	<b>1,003</b>	917	9%	<b>990</b>	897	10%
Automotive	<b>1,878</b>	1,788	5%	<b>1,788</b>	1,750	2%

(1) Includes GLT as of May 10, 2004.

Certain of the comparative statistical data and related productivity measures have been restated to reflect changes to estimated statistical data previously reported and reclassified in order to be consistent with the 2005 presentation.

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**NON-GAAP MEASURES (U.S. GAAP)**


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**Free cash flow**

The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company defines free cash flow as cash provided from operating activities, excluding changes in the level of accounts receivable sold under the securitization program, less investing activities and dividends paid, and adjusted for significant acquisitions as they are not indicative of normal day-to-day investments in the Company's asset base, calculated as follows:

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<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Cash provided from operating activities	\$ <b>785</b>	\$ 590	\$ <b>1,368</b>	\$ 895
<b>Less:</b>				
Investing activities	<b>(249)</b>	(781)	<b>(398)</b>	(765)
Dividends paid	<b>(69)</b>	(56)	<b>(140)</b>	(111)
Cash provided (used) before financing activities	<b>467</b>	(247)	<b>830</b>	19
<b>Adjustments:</b>				
Change in accounts receivable sold	<b>10</b>	9	<b>(43)</b>	15
Acquisition of GLT	-	553	-	553
<b>Free cash flow</b>	\$ <b>477</b>	\$ 315	\$ <b>787</b>	\$ 587

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**CANADIAN NATIONAL RAILWAY COMPANY**  
**SUPPLEMENTARY INFORMATION**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)**


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(In millions, except per share data)

	Three months ended June 30			Six months ended June 30		
	2005	2004 pro forma(1)	Variance Fav (Unfav)	2005	2004 pro forma(1)	Variance Fav (Unfav)
<i>(Unaudited)</i>						
<b>Revenues</b>						
Petroleum and chemicals	\$ 271	\$ 270	-	\$ 546	\$ 534	2%
Metals and minerals	214	205	4%	413	377	10%
Forest products	450	414	9%	854	783	9%
Coal	97	77	26%	176	148	19%
Grain and fertilizers	260	275	(5%)	536	534	-
Intermodal	313	288	9%	600	516	16%
Automotive	139	143	(3%)	261	273	(4%)
Other items	94	89	6%	158	153	3%
	<b>1,838</b>	1,761	4%	<b>3,544</b>	3,318	7%
<b>Operating expenses</b>						
Labor and fringe benefits	436	494	12%	935	957	2%
Purchased services and materials	196	196	-	402	412	2%
Depreciation and amortization	158	158	-	314	312	(1%)
Fuel	179	132	(36%)	345	266	(30%)
Equipment rents	53	62	15%	100	122	18%
Casualty and other	103	108	5%	209	224	7%
	<b>1,125</b>	1,150	2%	<b>2,305</b>	2,293	(1%)
<b>Operating income</b>	<b>713</b>	611	17%	<b>1,239</b>	1,025	21%
Interest expense	(78)	(87)		(153)	(180)	
Other loss	(5)	(23)		(9)	(35)	
<b>Income before income taxes</b>	<b>630</b>	501		<b>1,077</b>	810	
Income tax expense	(214)	(163)		(362)	(261)	
<b>Net income</b>	<b>\$ 416</b>	\$ 338		<b>\$ 715</b>	\$ 549	
<b>Operating ratio</b>	<b>61.2%</b>	65.3%	4.1	<b>65.0%</b>	69.1%	4.1
<b>Basic earnings per share</b>	<b>\$ 1.50</b>	\$ 1.19		<b>\$ 2.55</b>	\$ 1.93	
	<b>\$ 1.47</b>	\$ 1.17		<b>\$ 2.51</b>	\$ 1.90	



**Diluted earnings  
per share**

(1) The pro forma figures reflect the Company's results of operations as if the Company had acquired GLT and BC Rail on January 1, 2004.

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

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**CANADIAN NATIONAL RAILWAY COMPANY  
SUPPLEMENTARY PRO FORMA INFORMATION (U.S. GAAP)**


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	Three months ended June 30			Six months ended June 30		
	2005	2004 pro forma(1)	Variance Fav (Unfav)	2005	2004 pro forma(1)	Variance Fav (Unfav)
	<i>(Unaudited)</i>					
<b>Revenue ton miles (millions)</b>						
Petroleum and chemicals	<b>7,617</b>	7,792	(2%)	<b>15,675</b>	15,726	-
Metals and minerals	<b>4,101</b>	4,492	(9%)	<b>8,394</b>	8,895	(6%)
Forest products	<b>10,833</b>	10,429	4%	<b>21,073</b>	20,085	5%
Coal	<b>3,799</b>	3,139	21%	<b>7,184</b>	6,359	13%
Grain and fertilizers	<b>9,360</b>	10,040	(7%)	<b>19,728</b>	20,115	(2%)
Intermodal	<b>8,199</b>	7,737	6%	<b>15,962</b>	14,727	8%
Automotive	<b>841</b>	905	(7%)	<b>1,641</b>	1,739	(6%)
	<b>44,750</b>	44,534	-	<b>89,657</b>	87,646	2%
<b>Freight revenue / RTM (cents)</b>						
<b>Total freight revenue per RTM</b>	<b>3.90</b>	3.75	4%	<b>3.78</b>	3.61	5%
<b>Commodity groups:</b>						
Petroleum and chemicals	<b>3.56</b>	3.47	3%	<b>3.48</b>	3.40	2%
Metals and minerals	<b>5.22</b>	4.56	14%	<b>4.92</b>	4.24	16%
Forest products	<b>4.15</b>	3.97	5%	<b>4.05</b>	3.90	4%
Coal	<b>2.55</b>	2.45	4%	<b>2.45</b>	2.33	5%
Grain and fertilizers	<b>2.78</b>	2.74	1%	<b>2.72</b>	2.65	3%
Intermodal	<b>3.82</b>	3.72	3%	<b>3.76</b>	3.50	7%
Automotive	<b>16.53</b>	15.80	5%	<b>15.90</b>	15.70	1%

**Carloads (thousands)**

Petroleum and chemicals	<b>148</b>	149	(1%)	<b>302</b>	300	1%
Metals and minerals	<b>237</b>	263	(10%)	<b>475</b>	488	(3%)
Forest products	<b>182</b>	183	(1%)	<b>363</b>	361	1%
Coal	<b>117</b>	104	13%	<b>221</b>	213	4%
Grain and fertilizers	<b>134</b>	144	(7%)	<b>278</b>	288	(3%)
Intermodal	<b>312</b>	313	-	<b>606</b>	573	6%
Automotive	<b>74</b>	80	(8%)	<b>146</b>	156	(6%)
	<b>1,204</b>	1,236	(3%)	<b>2,391</b>	2,379	1%

**Freight revenue / carload (dollars)**

<b>Total freight revenue per carload</b>	<b>1,449</b>	1,353	7%	<b>1,416</b>	1,330	6%
<b>Commodity groups:</b>						
Petroleum and chemicals	<b>1,831</b>	1,812	1%	<b>1,808</b>	1,780	2%
Metals and minerals	<b>903</b>	779	16%	<b>869</b>	773	12%
Forest products	<b>2,473</b>	2,262	9%	<b>2,353</b>	2,169	8%
Coal	<b>829</b>	740	12%	<b>796</b>	695	15%
Grain and fertilizers	<b>1,940</b>	1,910	2%	<b>1,928</b>	1,854	4%
Intermodal	<b>1,003</b>	920	9%	<b>990</b>	901	10%
Automotive	<b>1,878</b>	1,788	5%	<b>1,788</b>	1,750	2%

(1) The pro forma figures reflect the Company's results of operations as if the Company had acquired GLT and BC Rail on January 1, 2004.

Certain of the comparative statistical data and related productivity measures have been restated to reflect changes to estimated statistical data previously reported and reclassified in order to be consistent with the 2005 presentation.

**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**

Management's discussion and analysis (MD&A) relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including the railroads and related holdings of Great Lakes Transportation LLC (GLT) as of May 10, 2004, and BC Rail Partnership and the former BC Rail Ltd. (collectively BC Rail) as of July 14, 2004. As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock

*exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company's objective is to provide meaningful and relevant information reflecting the Company's financial condition and results of operations. In certain instances, the Company may make reference to certain non-GAAP measures that, from management's perspective, are useful measures of performance. The reader is advised to read all information provided in the MD&A in conjunction with the Company's 2005 Interim Consolidated Financial Statements and notes thereto, as well as the 2004 Annual MD&A.*

## **BUSINESS PROFILE**

CN, directly and through its subsidiaries, is engaged in the rail and related transportation business. CN's network of approximately 19,200 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's revenues are derived from seven commodity groups consisting of the movement of a diversified and balanced portfolio of goods which positions it well to face economic fluctuations and enhances its potential to grow revenues. In 2004, no individual commodity group accounted for more than 22% of revenues. The sources of revenue also reflect a balanced mix of destinations. In 2004, 23% of revenues came from U.S. domestic traffic, 34% from transborder traffic, 23% from Canadian domestic traffic and 20% from overseas traffic. The Company originates approximately 87% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

## **STRATEGY**

CN is committed to creating value for both its customers and shareholders. By providing quality and cost-effective service, CN seeks to create value for its customers, which solidifies existing customer relationships, while enabling it to pursue new ones. Sustainable financial performance is a critical element of shareholder value, which CN strives to achieve by pursuing revenue growth, steadily increasing profitability, solid free cash flow generation and an adequate return on investment. CN's business strategy is guided by five core values: providing good service, controlling costs, focusing on asset utilization, committing to safety and developing employees.

## **OVERVIEW**

For 2005 and the foreseeable future, CN's challenge is to remain at the forefront of rail industry financial performance and to build value for shareholders and customers by aiming to make the railroad the continent's best-performing transportation company.

CN's plan is premised on the deployment of its business model to generate quality revenues, while leveraging capacity and maintaining its current level of plant quality.

The "scheduled railroad" is the foundation for the Company's business model. For CN's merchandise business, the scheduled railroad, which is defined as a trip plan for every car measured in hours, has reduced transit times, improved the consistency of CN's transportation product, dramatically improved productivity and helped to improve network capacity. In 2003, the Company began to apply the same principles of scheduled railroading to its intermodal business through the Intermodal Excellence (IMX) initiative. IMX is designed to smooth demand and balance the flow of intermodal traffic through pre-defined daily train capacity, slot, gate and equipment reservations, and day-of-the-week pricing. In early 2005, the Company began applying the principles of IMX to its carload business, launching Carload Excellence (CX), in order to improve asset utilization and optimize capacity.

CN's acquisition and control of Illinois Central and Wisconsin Central, in 1999 and 2001, respectively, extended the Company's reach into the central and southern United States. Among the benefits of single line service afforded by these transactions are improved transit and cycle times for freight cars and the penetration of new markets.

The acquisition of GLT in May 2004 has permitted new efficiencies in train operations north of Duluth/Superior in the key Winnipeg-Chicago corridor and positioned CN as a major player in the supply chain for the United States steel industry. The purchase of BC Rail in July 2004 not only grew CN's forest products business substantially, but also expanded the railroad's capacity in British Columbia, where the Port of Prince Rupert has the potential to become an important gateway for traffic moving to and from Asia and the heartland of North America.

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**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**


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Over the past five years, the Company has also invested heavily in new locomotives and freight cars, extended sidings and centralized traffic control to permit the operation of longer, more efficient trains. These strategic initiatives have improved service, reduced costs and created a fluid North American rail network that can accommodate business growth at low incremental cost. The Company intends to continue to make targeted capital expenditures to improve plant capacity as warranted by market conditions and satisfactory returns on investment.

The Company intends to pursue further operating efficiencies by optimizing its workforce, improving asset utilization, reducing accidents and related costs, and continuing to focus on legal claims and health care costs. The Company partners with connecting carriers to implement routing protocol agreements for carload freight and pursues co-production initiatives to further improve service, generate system capacity and gradually reduce costs.

The Company's ultimate goal is to generate profitable, sustainable growth at low incremental cost by striving to improve yield and increase market share to maximize its return on assets.

Financial highlights	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
<i>In millions, except per share data</i>				
	<i>(Unaudited)</i>			
<b>Financial results</b>				
Revenues	\$ 1,838	\$ 1,665	\$ 3,544	\$ 3,103
Operating income	\$ 713	\$ 575	\$ 1,239	\$ 970
Net income	\$ 416	\$ 326	\$ 715	\$ 536
Operating ratio	61.2%	65.5%	65.0%	68.7%
Basic earnings per share	\$ 1.50	\$ 1.14	\$ 2.55	\$ 1.88
Diluted earnings per share	\$ 1.47	\$ 1.13	\$ 2.51	\$ 1.85
Dividend declared per share	\$ 0.25	\$ 0.195	\$ 0.50	\$ 0.39
<b>Financial position</b>				
Total assets	\$ 22,439	\$ 21,970	\$ 22,439	\$ 21,970
Total long-term financial liabilities	\$ 11,443	\$ 11,168	\$ 11,443	\$ 11,168

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**FINANCIAL RESULTS**
**Second quarter and first half of 2005 compared to corresponding periods in 2004**

Second quarter 2005 net income increased by \$90 million, or 28%, to \$416 million, when compared to the same period in 2004, with diluted earnings per share rising 30%, to \$1.47. Revenues for the second quarter increased by \$173 million, or 10%, to \$1,838 million, mainly due to freight rate increases, which included a higher fuel

surcharge as a result of increases in crude oil prices, and the inclusion of GLT and BC Rail revenues, that were partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar denominated revenues of \$80 million. Operating expenses for the three months ended June 30, 2005 increased by \$35 million, or 3%, to \$1,125 million, primarily due to increased fuel costs and the inclusion of GLT and BC Rail expenses, partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar denominated expenses of \$50 million and lower labor and fringe benefits expenses. The operating ratio, defined as operating expenses as a percentage of revenues, was 61.2% in the current quarter compared to 65.5% in the second quarter of 2004, a 4.3-point betterment.

Net income for the six months ended June 30, 2005 increased by \$179 million, or 33%, to \$715 million, when compared to the same period in 2004, with diluted earnings per share rising 36%, to \$2.51. Revenues for the first half increased by \$441 million, or 14%, to \$3,544 million, mainly due to freight rate increases, the inclusion of GLT and BC Rail revenues, and a return to normal intermodal volumes following the first quarter 2004 CAW strike. Partly offsetting these gains was the translation impact of the stronger Canadian dollar on U.S. dollar denominated revenues of \$140 million, and a revenue processing system correction relating to prior years. For the first half of 2005, operating expenses increased by \$172 million, or 8%, to \$2,305 million, primarily due to increased

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## CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

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fuel costs and the inclusion of GLT and BC Rail expenses, partly offset by the translation impact of the stronger Canadian dollar on U.S. dollar denominated expenses of \$85 million. The six-month operating ratio was 65.0% compared to 68.7%, a 3.7-point betterment.

The second quarter and first half of 2005 and 2004 included items affecting the comparability of the results of operations. The Company acquired and consolidated GLT and BC Rail effective May 10, 2004 and July 14, 2004, respectively. Accordingly, in the discussions herein, the Company's results of operations for both the second quarter and first half of 2005 include the results of operations of both GLT and BC Rail. The second quarter and first six months of 2004 include the results of operations of GLT as of May 10, 2004. In the second quarter of 2005, the continued appreciation in the Canadian dollar relative to the U.S. dollar, which has impacted the conversion of the Company's U.S. dollar denominated revenues and expenses, resulted in a reduction to net income of approximately \$15 million in the second quarter, and approximately \$30 million in the first half of 2005. In the first quarter of 2004, a strike by the Company's employees represented by the CAW union negatively impacted operating income and net income by \$35 million and \$24 million, respectively.

### Revenues

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Total revenues (\$M)	<b>1,838</b>	1,665	10%	<b>3,544</b>	3,103	14%
<b>Rail freight:</b>						
Revenues (\$M)	<b>1,744</b>	1,590	10%	<b>3,386</b>	2,975	14%

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RTMs (M)	<b>44,750</b>	43,187	4%	<b>89,657</b>	84,481	6%
Revenue/RTM (¢)	<b>3.90</b>	3.68	6%	<b>3.78</b>	3.52	7%

Revenues for the quarter ended June 30, 2005 totaled \$1,838 million compared to \$1,665 million during the same period in 2004, an increase of \$173 million, or 10%. Revenues for the first half of 2005 were \$3,544 million, an increase of \$441 million, or 14%, from the same period last year. The increases in both the second quarter and first half of the year were mainly due to freight rate increases, which included a higher fuel surcharge as a result of increases in crude oil prices, and the inclusion of GLT and BC Rail revenues, approximately \$95 million for the second quarter and approximately \$215 million for the first half of 2005. The first half of 2005 also benefited from a return to normal intermodal volumes following the first quarter 2004 CAW strike. Partially offsetting these gains was the translation impact of the stronger Canadian dollar on U.S dollar denominated revenues and the revenue processing system correction relating to prior years.

Revenue ton miles, measuring the volume of rail freight transported by the Company, increased by 4% in the second quarter and 6% in the first half of 2005 when compared to the same periods in 2004. For the second quarter and first half of the year, freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 6% and 7%, respectively, when compared to the same periods last year, largely due to freight rate increases.

**Petroleum and chemicals**

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>271</b>	259	5%	<b>546</b>	509	7%
RTMs (M)	<b>7,617</b>	7,620	-	<b>15,675</b>	15,314	2%
Revenue/RTM (¢)	<b>3.56</b>	3.40	5%	<b>3.48</b>	3.32	5%

Petroleum and chemicals comprise a wide range of commodities, including chemicals, sulphur, plastics, petroleum and gas products. Although offshore markets have been growing strongly, the primary markets for these commodities are still 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 center for natural gas, feedstock and petrochemicals and plastics complex derivatives, and in eastern Canadian regional plants, and are destined for customers in Canada, the United States and overseas. Revenues for this commodity group increased by \$12 million, or 5%, for the second quarter and \$37 million, or 7%, for the first six months of 2005 when compared to the same periods in 2004. Both the second quarter and first half of 2005 benefited from freight rate increases, the inclusion of BC Rail revenues, \$9 million for the quarter and \$18 million for the six-month period, strong demand and improved traffic mix for refined petroleum products and several chemicals, and a shift from offshore to Canadian suppliers for liquefied petroleum gas. These gains were partially offset by the translation impact of the stronger Canadian dollar and continued weakness in the U.S. molten sulphur market. Freight revenue per revenue ton mile increased by 5% for both the quarter and first half of 2005, largely due to freight rate increases that were partially offset by the translation impact of the stronger Canadian dollar.

**Metals and minerals**

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>214</b>	184	16%	<b>413</b>	318	30%
RTMs (M)	<b>4,101</b>	4,179	(2%)	<b>8,394</b>	7,987	5%
Revenue/RTM (¢)	<b>5.22</b>	4.40	19%	<b>4.92</b>	3.98	24%

The metals and minerals commodity group consists primarily of nonferrous base metals, iron ore, steel, equipment and parts and construction materials. The Company's unique rail access to major mines, ports and smelters throughout North America has made the Company a transportation leader of copper, lead, zinc concentrates, iron ore, refined metals and aluminum. Construction materials are mainly aggregates (stone and sand) and cement. The Company has access to major cement producers and aggregate mines in Canada as well as in the U.S. Metals and minerals traffic is sensitive to fluctuations in the economy. Revenues for this commodity group increased by \$30 million, or 16%, for the second quarter and \$95 million, or 30%, for the first six months of 2005 when compared to the same periods in 2004. The increases were mainly due to the inclusion of GLT and BC Rail revenues, \$20 million for the quarter and \$61 million for the six-month period, freight rate increases, strong shipments of construction materials and a number of steel products and an improvement in traffic mix. Partially offsetting these gains was the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 19% in the current quarter, and 24% in the six-month period, mainly due to shorter-haul traffic, particularly related to GLT, and freight rate increases. Partly offsetting these factors were the translation impact of the stronger Canadian dollar and a long-haul spot move for iron ore in 2004.

**Forest products**

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>450</b>	369	22%	<b>854</b>	689	24%
RTMs (M)	<b>10,833</b>	9,651	12%	<b>21,073</b>	18,450	14%
Revenue/RTM (¢)	<b>4.15</b>	3.82	9%	<b>4.05</b>	3.73	9%

The forest products commodity group includes various types of lumber, panels, wood chips, wood pulp, printing paper, linerboard and newsprint. The Company has superior rail access to the western and eastern Canadian fiber-producing regions, which are among the largest fiber source areas in North America. In the United States, the Company is strategically located to serve both the Midwest and southern U.S. corridors with interline capabilities to other Class 1 railroads. The key drivers for the various commodities are: for newsprint, advertising lineage and overall economic conditions, primarily in the United States; for fibers (mainly wood pulp), the consumption of paper worldwide; and for lumber and panels, housing starts and renovation activities in the United States. Although demand for forest products can be cyclical, the Company's geographical advantages and product diversity tend to reduce the impact of market fluctuations. Revenues for this commodity group increased by \$81 million, or 22%, for the second quarter and \$165 million, or 24%, for the first six months of 2005 when compared to the same periods in 2004. The increases were mainly due to the inclusion of BC Rail revenues (mainly lumber and panels), \$39 million for the second quarter and \$87 million for the six month period, freight rate increases, continued solid demand for Canadian lumber and panels, improvements in traffic mix and strong shipments of pulp and paper. The translation impact of the stronger Canadian dollar partially offset these gains. Revenue per revenue ton mile

increased by 9% for both the second quarter and first half of 2005 mainly due to freight rate increases and a positive change in traffic mix, which were partially offset by the translation impact of the stronger Canadian dollar.

## Coal

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>97</b>	74	31%	<b>176</b>	141	25%
RTMs (M)	<b>3,799</b>	3,110	22%	<b>7,184</b>	6,297	14%
Revenue/RTM (¢)	<b>2.55</b>	2.38	7%	<b>2.45</b>	2.24	9%

The coal commodity group consists primarily of thermal grades of bituminous coal. Canadian thermal coal is delivered to power utilities primarily in eastern Canada, while in the United States, thermal coal is transported from mines served in southern Illinois, or from western U.S. mines via interchange with other railroads, to major utilities in the Midwest and southeast United States. The coal business also includes the transport of Canadian metallurgical coal, which is largely exported to Asian steel producers. Reversing the recent trend of declining Canadian production, the strong global market for metallurgical coal facilitated the opening of three mines along the Company's network in late 2004. The renewed strength in this market is expected to continue as strong Asian demand for metallurgical coal drives increased Canadian production. Revenues for this commodity group increased by \$23 million, or 31%, for the second quarter and \$35 million, or 25%, for the first six months of 2005 when compared to the same periods in 2004. The increases were mainly due to shipments originating from new metallurgical coal mines in Western Canada, the inclusion of GLT and BC Rail revenues, \$7 million for the second quarter and \$16 million for the six month period, freight rate increases and

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## CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS(U.S. GAAP)

increased shipments of imported metallurgical coke. Partially offsetting these gains was the translation impact of the stronger Canadian dollar. The revenue per revenue ton mile increase of 7% in the second quarter and 9% in the first half of 2005 was mainly due to increased freight rates which were partially offset by the stronger Canadian dollar and an increase in the average length of haul.

## Grain and fertilizers

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>260</b>	274	(5%)	<b>536</b>	530	1%



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RTMs (M)	<b>9,360</b>	9,985	(6%)	<b>19,728</b>	19,967	(1%)
Revenue/RTM (¢)	<b>2.78</b>	2.74	1%	<b>2.72</b>	2.65	3%

The grain and fertilizers commodity group depends primarily on crops grown and fertilizers processed in western Canada and the U.S. Midwest. The grain segment consists of three primary commodities: food grains, mainly wheat; oilseeds and oilseed products, primarily canola seed, oil and meal; and feed grains, including feed barley, feed wheat and corn. Production of grain varies considerably from year to year, affected primarily by weather conditions. Grain exports are volatile, reflecting the size and quality of the crop produced, international market conditions and foreign government policy. The majority of grain produced in Western Canada is exported via the ports of Vancouver, Prince Rupert or Thunder Bay. In the U.S., grain grown in Illinois and Iowa is exported, as well as transported to domestic processing facilities and feed markets. The Company also serves major producers of potash in Canada, as well as producers of ammonium nitrate, urea and other fertilizers across Canada and the U.S. Revenues for this commodity group decreased by \$14 million, or 5%, for the second quarter and increased by \$6 million, or 1%, for the first six months of 2005 when compared to the same periods in 2004. Revenues for the second quarter and first half of 2005 benefited from freight rate increases, an improvement in traffic mix and strong U.S. shipments of soybeans. Revenues were negatively impacted by the decreased availability of high quality Canadian grain due to adverse weather conditions, particularly in the second quarter, and the translation impact of the stronger Canadian dollar. The revenue per revenue ton mile increase of 1% in the second quarter and 3% in the first half of 2005, was largely due to freight rate increases and a positive change in traffic mix, partially offset by the translation impact of the stronger Canadian dollar.

**Intermodal**

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>313</b>	287	9%	<b>600</b>	515	17%
RTMs (M)	<b>8,199</b>	7,737	6%	<b>15,962</b>	14,727	8%
Revenue/RTM (¢)	<b>3.82</b>	3.71	3%	<b>3.76</b>	3.50	7%

The intermodal commodity group is comprised of two segments: domestic and international. The domestic segment is responsible for consumer products and manufactured goods, operating through both retail and wholesale channels while the international segment handles import and export container traffic, directly serving the major ports of Vancouver, Montreal, Halifax and New Orleans. The domestic segment is driven by consumer markets, with growth generally tied to the economy. The international segment is driven by North American economic and trade conditions. Revenues for this commodity group increased by \$26 million, or 9%, for the second quarter and \$85 million, or 17%, for the first six months of 2005 when compared to the same periods in 2004. Second quarter and first half 2005 revenues reflected freight rate increases, strong imports into the Port of Vancouver and a return to normal traffic levels following the first-quarter 2004 CAW strike. Partially offsetting these gains were the translation impact of the stronger Canadian dollar and a change in port of call for an overseas shipper. The revenue per revenue ton mile increase of 3% in the second quarter and 7% in the first half of 2005 was largely due to a positive change in traffic mix and freight rate increases, which were partially offset by the translation impact of the stronger Canadian dollar and an increase in the average length of haul.

**Automotive**

	Three months ended June 30			Six months ended June 30		
	2005	2004	% Δ	2005	2004	% Δ
Revenues (\$M)	<b>139</b>	143	(3%)	<b>261</b>	273	(4%)
RTMs (M)	<b>841</b>	905	(7%)	<b>1,641</b>	1,739	(6%)
Revenue/RTM (¢)	<b>16.53</b>	15.80	5%	<b>15.90</b>	15.70	1%

The automotive commodity group moves both finished vehicles and parts, originating in southern Ontario, Michigan and Mississippi, destined for the United States, Canada and Mexico. The Company's broad coverage, including its access to all of the Canadian assembly plants, enables it to consolidate full trainloads of automotive traffic for delivery to connecting railroads at key interchange points. The Company also serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads. The Company's automotive revenues are closely correlated to automotive production and sales in North America. Revenues for this commodity group decreased by \$4 million, or 3%, for the second quarter and \$12 million, or 4%, for the first six months of 2005 when compared to the same periods in 2004. The decreases were due to the translation impact of the stronger Canadian dollar and a reduction in automotive production at CN-served facilities in southern Ontario. The decline was partially offset by an increase in import vehicles via the Ports of Vancouver and Halifax, in a flat market, the benefit of new finished vehicle traffic in the southern U.S. that began in the second half of 2004 and freight rate increases. Revenue per revenue ton mile increased by 5% for the second quarter and 1% for the first half of 2005, largely due to freight rate increases, which were partially offset by the translation impact of the stronger Canadian dollar and an increase in the average length of haul.

**Other**

In the second quarter and first half of 2005, other revenues increased by \$19 million and \$30 million, respectively, when compared to the same period in 2004, due mainly to revenues from GLT's maritime division.

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**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**


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**Operating expenses**

In the second quarter of 2005, operating expenses amounted to \$1,125 million compared to \$1,090 million in the same quarter of 2004. Operating expenses for the first half of 2005 were \$2,305 million compared to \$2,133 million in the same period of 2004. The increase of \$35 million, or 3%, in the second quarter and \$172 million, or 8%, in the first half of 2005 were mainly due to increased fuel costs and the inclusion of GLT and BC Rail expenses. Partly offsetting these factors was the translation impact of the stronger Canadian dollar on U.S. dollar denominated expenses, and lower labor and fringe benefits expenses in the second quarter.

In millions	Three months ended June 30				Six months ended June 30		
	2005		2004		2005		
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount
Labor and fringe benefits	\$ 436	23.7%	\$ 466	28.0%	\$ 935	26.4%	\$ 935
Purchased services and material	196	10.7%	181	10.9%	402	11.3%	402
Depreciation and amortization	158	8.6%	150	9.0%	314	8.9%	314
Fuel	179	9.7%	123	7.4%	345	9.7%	345
Equipment rents	53	2.9%	68	4.1%	100	2.8%	100
Casualty and other	103	5.6%	102	6.1%	209	5.9%	209
<b>Total</b>	<b>\$ 1,125</b>	<b>61.2%</b>	<b>\$ 1,090</b>	<b>65.5%</b>	<b>\$ 2,305</b>	<b>65.0%</b>	<b>\$ 2,305</b>

**Labor and fringe benefits:** Labor and fringe benefits includes wages, payroll taxes, and employee benefits such as incentive compensation, stock-based compensation, health and welfare, pensions and other post-employment benefits. Certain incentive and stock-based compensation plans are based on financial and market performance targets and the related expense is recorded in the period in which there is an expectation that the targets will be attained. Labor and fringe benefits expenses decreased by \$30 million, or 6%, for the second quarter and increased by \$50 million, or 6%, for the first half of 2005 when compared to the same periods in 2004. The decrease in the second quarter was mainly due to the timing of incentive compensation expense, the translation impact of the stronger Canadian dollar, the impact of a reduced CN workforce, and lower net expenses for pension and other post-retirement benefits, which were partly offset by the inclusion of \$24 million of GLT and BC Rail expenses and wage increases. The increase in the first half of 2005 was attributable to the inclusion of GLT and BC Rail expenses of \$63 million, adjustments relating to the workforce reduction provision for increased health care costs, a return to normal wage levels following the first-quarter 2004 CAW strike, increased stock-based compensation expense and wage increases. Partly offsetting these factors was the translation impact of the stronger Canadian dollar, the impact of a reduced CN workforce, and lower net expenses for pension and other post-retirement benefits.

**Purchased services and material:** Purchased services and material primarily includes the costs of services purchased from outside contractors, materials used in the maintenance of the Company's track, facilities and equipment, transportation and lodging for train crew employees, utility costs and the net costs of operating facilities jointly used by the Company and other railroads. These expenses increased by \$15 million, or 8%, for the second quarter and \$31 million, or 8%, for the first half of 2005 when compared to the same periods in 2004. The increases were mainly due to the inclusion of GLT and BC Rail expenses, \$15 million in the second quarter and \$44 million in the six-month period, higher professional fees, and higher wheel consumption primarily in the first quarter, due to harsh weather conditions in western Canada and increased volumes. These factors were partly offset by the translation impact of the stronger Canadian dollar and increased credits from repairs on foreign cars.

**Depreciation and amortization:** Depreciation and amortization relates to the Company's rail operations. These expenses increased by \$8 million, or 5%, for the second quarter and \$22 million, or 8%, for the first half of 2005 when compared to the same periods in 2004. The increases were mainly due to the inclusion of GLT and BC Rail depreciation expense, \$5 million for the quarter and \$17 million for the six-month period, and the impact of net capital additions, which were partially offset by the translation impact of the stronger Canadian dollar.

**Fuel:** Fuel expense includes the cost of fuel consumed by locomotives, intermodal equipment and other vehicles. These expenses increased by \$56 million, or 46%, for the second quarter and \$100 million, or 41%, for the first half of 2005 when compared to the same periods in 2004. The increases were mainly due to a higher average price per gallon, net of the impact of the hedging program, the inclusion of GLT and BC Rail fuel expense, a second-quarter 2004 fuel excise tax refund and higher volumes, particularly

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**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**

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in the first quarter. The increases were partly offset by the translation impact of the stronger Canadian dollar.

**Equipment rents:** Equipment rents includes rental expense for the use of freight cars owned by other railroads or private companies and for the short or long-term lease of freight cars, locomotives and intermodal equipment, net of rental income from other railroads for the use of the Company's cars and locomotives. These expenses decreased by \$15 million, or 22%, for the second quarter and \$31 million, or 24%, for the first half of 2005 when compared to the same periods in 2004. The decreases were due to higher car hire income, largely due to the inclusion of BC Rail, the translation impact of the stronger Canadian dollar and lower car hire expense, particularly in the first quarter. Partly offsetting these factors was higher lease expense due to the inclusion of BC Rail, increased supply of premium cars to customers, and higher rates.

**Casualty and other:** Casualty and other includes expenses for personal injuries, environmental, freight and property damage, insurance, bad debt and operating taxes, as well as travel and travel-related expenses. These expenses increased by \$1 million, or 1%, for the second quarter and remained flat for the first half of 2005 when compared to the same periods in 2004. The increase in the second quarter was due to the inclusion of GLT and BC Rail expenses that were almost entirely offset by the translation impact of the stronger Canadian dollar. In the six-month period, the inclusion of GLT and BC Rail expenses of \$10 million, higher derailment-related expenses and higher capital taxes were entirely offset by the translation impact of the stronger Canadian dollar, lower insurance premiums and bad debt expense.

**Other**

**Interest expense:** Interest expense increased by \$10 million, or 15%, for the second quarter and \$13 million, or 9%, for the first half of 2005 when compared to the same periods in 2004. The increases were mainly due to the financing related to the Company's acquisitions in 2004, partly offset by the translation impact of the stronger Canadian dollar, and the benefit of the repayment of a matured Note in first-quarter 2004.

**Other loss:** In the second quarter and first half of 2005, the Company recorded a loss of \$5 million and \$9 million, respectively, compared to \$23 million and \$36 million, respectively, for the same periods in 2004. The decreased losses were mainly due to first-quarter 2004 restructuring charges related to the Company's investment in English Welsh and Scottish Railway (EWS), higher equity income from EWS, particularly in the second quarter, and lower net losses from real estate and other business activities.

**Income tax expense:** The Company recorded income tax expense of \$214 million for the second quarter of 2005 compared to \$158 million in the corresponding 2004 period. For the six-month period ended June 30, 2005, income tax expense was \$362 million compared to \$258 million for the same period in 2004. The effective tax rate for the second quarter and first half of 2005 was 34.0% and 33.6%, respectively. The effective tax rate for the second quarter and first half of 2004 was 32.6% and 32.5%, respectively.

**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**
**Summary of quarterly financial data - unaudited**
*In millions, except per share data*

	2005		2004			2003		
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	\$ 1,838	\$ 1,706	\$ 1,736	\$ 1,709	\$ 1,665	\$ 1,438	\$ 1,512	\$ 1,413
Operating income	\$ 713	\$ 526	\$ 607	\$ 591	\$ 575	\$ 395	\$ 512	\$ 454
Net income	\$ 416	\$ 299	\$ 376	\$ 346	\$ 326	\$ 210	\$ 224	\$ 294
Basic earnings per share	\$ 1.50	\$ 1.06	\$ 1.32	\$ 1.21	\$ 1.14	\$ 0.74	\$ 0.79	\$ 1.04
Diluted earnings per share	\$ 1.47	\$ 1.04	\$ 1.29	\$ 1.19	\$ 1.13	\$ 0.73	\$ 0.78	\$ 1.02
Dividend declared per share	\$ 0.250	\$ 0.250	\$ 0.195	\$ 0.195	\$ 0.195	\$ 0.195	\$ 0.167	\$ 0.167

The volume of goods and commodities transported by the Company during the year is influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace. Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives.

The Company's quarterly results included items that affect the quarter-over-quarter comparability of the results of operations. The Company's results of operations for 2004 included GLT as of May 10, 2004 and BC Rail as of July 14, 2004. First-quarter 2004 results were affected by the month-long CAW strike, which negatively impacted operating income and net income by \$35 million and \$24 million, respectively. In the fourth quarter of 2003, the Company recorded a deferred income tax expense of \$79 million resulting from the enactment of higher corporate tax rates in the province of Ontario. Also, the continued appreciation in the Canadian dollar relative to the U.S. dollar has impacted the conversion of the Company's U.S. dollar denominated revenues and expenses and resulted in varying reductions in net income in the rolling eight quarters presented above.

**CANADIAN NATIONAL RAILWAY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)**
**Liquidity and capital resources**

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The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its revolving credit facility, the issuance of debt and/or equity, and the sale of a portion of its accounts receivable through a securitization program. In addition, from time to time, the Company's liquidity requirements can be supplemented by the disposal of surplus properties and the monetization of assets.

*Operating activities:* Cash provided from operating activities for the three and six months ended June 30, 2005 was \$785 million and \$1,368 million, respectively, compared to \$590 million and \$895 million, respectively, for the same periods in 2004. Net cash receipts from customers and other were \$3,720 million for the six months ended June 30, 2005 compared to \$3,023 million in the same period of 2004. Payments for employee services, suppliers and other expenses were \$2,005 million for the six months ended June 30, 2005, an increase of \$233 million when compared to the same period in 2004. Also consuming cash in the first half of 2005, were payments for interest, workforce reductions and personal injury and other claims of \$143 million, \$52 million and \$48 million, respectively, compared to \$128 million, \$56 million and \$55 million, respectively, for the same period in 2004. In the first half of 2005, pension contributions and payments for income taxes were \$54 million and \$50 million, respectively, compared to \$66 million and \$51 million, respectively, for the same period in 2004. The Company increased the level of accounts receivable sold under its accounts receivable securitization program by \$43 million in the first half of 2005 compared to a decrease of \$15 million for the same period in 2004.

As at June 30, 2005, the Company had outstanding information technology service contracts of \$14 million.

*Investing activities:* Cash used by investing activities in the quarter and six months ended June 30, 2005 amounted to \$249 million and \$398 million, respectively, compared to \$781 million and \$765 million for the comparable periods in 2004. The Company's investing activities in the first half of 2005 included net proceeds of £26 million (Cdn\$61 million) related to the Company's 8% note receivable from EWS. The Company's investing activities in the first half of 2004 included \$553 million related to the acquisition of GLT on May 10, 2004, net proceeds of \$141 million from the EWS capital reorganization and \$35 million from the sale of its Canac Inc. subsidiary. Net capital expenditures amounted to \$318 million and \$471 million in the three and six months ended June 30, 2005, respectively, an increase of \$59 million and \$87 million from the same 2004 periods. The following table details capital expenditures for the second quarter and first half of 2005 and 2004.

<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Track and roadway	\$ 249	\$ 208	\$ 361	\$ 306
Rolling stock	22	27	43	84
Buildings	40	19	53	34
Other	20	8	27	11
	<b>331</b>	262	<b>484</b>	435
Less: capital leases	<b>13</b>	3	<b>13</b>	51
Net capital expenditures	<b>\$ 318</b>	\$ 259	<b>\$ 471</b>	\$ 384

The Company expects that its capital expenditures will be approximately \$1,400 million in 2005, an increase from 2004 due to the acquisition of rolling stock, increased expenditures required for ongoing renewal of the basic plant, and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at June 30, 2005, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives and other equipment at an aggregate cost of \$554 million (\$194 million at December 31, 2004).

*Dividends:* The Company paid a quarterly dividend of \$0.25 per share amounting to \$69 million for the second quarter and \$140 million for the first six months of 2005 compared to \$56 million and \$111 million, respectively, at the rate of \$0.195 per share, for the same periods in 2004.

**Free cash flow**

The Company generated \$477 million and \$787 million of free cash flow for the three and six months ended June 30, 2005, compared to \$315 million and \$587 million for the same 2004 periods. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the level of accounts receivable sold under the securitization program, less investing activities and dividends paid, and adjusted for significant acquisitions as they are not indicative of normal day-to-day investments in the Company's asset base, calculated as follows:

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<i>In millions</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Cash provided from operating activities	\$ 785	\$ 590	\$ 1,368	\$ 895
<b>Less:</b>				
Investing activities	(249)	(781)	(398)	(765)
Dividends paid	(69)	(56)	(140)	(111)
Cash provided (used) before financing activities	<b>467</b>	(247)	<b>830</b>	19
<b>Adjustments:</b>				
Change in accounts receivable sold	10	9	(43)	15
Acquisition of GLT	-	553	-	553
<b>Free cash flow</b>	<b>\$ 477</b>	\$ 315	<b>\$ 787</b>	\$ 587

*Financing activities:* Cash used by financing activities for the second quarter and six months ended June 30, 2005, totaled \$514 million and \$822 million, respectively, compared to cash received from financing activities of \$207 million and cash used by financing activities of \$14 million, for the same 2004 periods. In May 2005, the Company repaid U.S.\$100 million (Cdn\$125 million) of 7.75% 10-year Notes with cash on hand. In March 2004, the Company had repaid U.S.\$266 million (Cdn\$355 million) of 7.00% 10-year Notes with cash on hand and the proceeds received from the issuance of commercial paper. In the second quarter and first half of 2005 and 2004, issuances and repayments of long-term debt related principally to the Company's commercial paper program.

In the second quarter and first half of 2005, the Company repurchased 5.4 million and 10 million common shares for \$401 million (average price per share of \$74.30) and \$748 million (average price per share of \$74.78), respectively.

For both the second quarter and first half of 2005, the Company recorded \$13 million in capital lease obligations (\$3 million and \$51 million in the second quarter and first half of 2004, respectively) related to new equipment.

The Company has access to various financing arrangements:

*Revolving credit facility*

In January 2005, the Company repaid its borrowings of U.S.\$90 million (Cdn\$108 million) outstanding at December 31, 2004 under its U.S. \$1,000 million revolving credit facility. On March 29, 2005, the Company refinanced, by way of amendment, its revolving credit facility, which was scheduled to mature in December 2005, for a five-year period to March 2010. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program. The credit facility 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 amended credit facility agreement retains customary limitations on debt as a percentage of total capitalization, but eliminates the requirement for maintaining tangible net worth above pre-defined levels. The Company has been in compliance with these covenants throughout the period. As at June 30, 2005, the Company had letters of credit of \$301 million under its revolving credit facility.

*Commercial paper*

The Company has a commercial paper program, which is backed by a portion of its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the U.S. dollar equivalent. Commercial paper debt is due within one year but is classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowings through subsequent issuances of commercial paper or drawing down on the long-term revolving credit facility. At June 30, 2005, the Company had outstanding borrowings of U.S.\$323 million (Cdn\$397 million) under the commercial paper program.

*Shelf prospectus and registration statement*

At June 30, 2005, the Company had U.S.\$200 million remaining for issuance under its currently effective shelf prospectus and registration statement.

The Company's access to current and alternate sources of financing at competitive costs is dependent on its credit rating. The Company is not currently aware of any adverse trend, event or condition that would affect the Company's credit rating.

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**Contractual obligations**

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations for the following items as at June 30, 2005:

<i>In millions</i>	<b>Total</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010 &amp; thereafter</b>
Long-term debt obligations (a)	<b>\$ 4,387</b>	\$ 7	\$ 314	\$ 61	\$ 212	\$ 371	\$ 3,422
Capital lease obligations (b)	<b>1,054</b>	46	107	130	56	96	619



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Operating lease obligations	<b>1,040</b>	109	216	174	141	110	290
Purchase obligations (c)	<b>568</b>	335	137	17	70	9	-
<b>Total obligations</b>	<b>\$ 7,049</b>	<b>\$ 497</b>	<b>\$ 774</b>	<b>\$ 382</b>	<b>\$ 479</b>	<b>\$ 586</b>	<b>\$ 4,331</b>

- (a) Presented net of unamortized discounts, of which \$836 million relates to non-interest bearing notes due in 2094 assumed as part of the BC Rail acquisition and excludes capital lease obligations of \$730 million which are included in Capital lease obligations.
- (b) Includes \$324 million of imputed interest on capital leases at rates ranging from approximately 3.00% to 13.13%.
- (c) Includes commitments for railroad ties, rail, freight cars, locomotives and other equipment and outstanding information technology service contracts.

For 2005 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

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**Acquisitions**

The Company completed its acquisitions of GLT and BC Rail on May 10, 2004 and July 14, 2004, respectively, and began a phased integration of the companies' operations.

The Company accounted for the acquisitions using the purchase method of accounting as required by Statement of Financial Accounting Standards (SFAS) No.141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of GLT as of May 10, 2004 and of BC Rail as of July 14, 2004, the dates of acquisition. The Company's final cost to acquire GLT of U.S.\$395 million (Cdn\$547 million) and BC Rail of \$991 million, included purchase price adjustments and transaction costs. By the second quarter of 2004, the Company had paid U.S.\$399 million (Cdn\$553 million) for the acquisition of GLT. The Company subsequently received Cdn\$6 million for purchase price adjustments finalized in the third quarter.

The Company had estimated, on a preliminary basis, the fair value of GLT's and BC Rail's assets acquired, owned and leased, and liabilities assumed at acquisition based on then current available information. The Company has since finalized the allocations of the GLT and BC Rail purchase price and has not made any significant adjustments to the preliminary purchase price allocations as presented in Note 3 Acquisitions, of the Company's 2004 Annual Consolidated Financial Statements.

These acquisitions involve the integration of two previously independent businesses with CN, to provide shippers enhanced rail services over a coordinated network. There can be no assurance that CN will be able to integrate its business with that of either GLT or BC Rail without encountering operational difficulties or experiencing the loss of key employees or customers, or that the rail service levels and other efficiencies or synergies expected from these acquisitions will be attained.

**Note receivable from English Welsh and Scottish Railway (EWS)**

On April 28, 2005, EWS fully redeemed the Company's 8% note receivable due 2009. The Company received £26 million (Cdn\$61 million), which included principal and accrued but unpaid interest at the date of redemption.

**Off balance sheet arrangements**

*Accounts receivable securitization program*

The Company has an accounts receivable securitization program, expiring in June 2006, under which it may sell, on a revolving basis, eligible freight trade and other receivables outstanding at any point in time, to an unrelated trust. The Company has a contingent residual interest of approximately 10% of receivables sold, which is recorded in Other current assets.

In February 2005, the Company amended the agreement to increase the maximum amount it may sell from \$450 million to \$500 million and modified certain reporting requirements.

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

The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate uses. In the event the program is terminated before its scheduled maturity, the Company expects to meet its future payment obligations through its various sources of financing, including its revolving credit facility and commercial paper program, and/or access to capital markets.

At June 30, 2005, pursuant to the agreement, \$492 million had been sold, compared to \$445 million at December 31, 2004.

*Guarantees and indemnifications*

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which extend over the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety bonds, and indemnifications that are customary for the type of transaction or for the railway business.

The Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. Where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized. The nature of these guarantees or indemnifications, the maximum potential amount of future payments, the carrying amount of the liability, and the nature of any recourse provisions are disclosed in Note 8 - Major commitments and contingencies of the Company's Interim Consolidated Financial Statements.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. While the Company is exposed to counterparty credit risk in the event of non-performance, the credit standing of counterparties or their guarantors is regularly monitored, and losses due to counterparty non-performance are not anticipated.

#### *Fuel*

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. However, the Company has not entered into any swap positions since September 2004. At June 30, 2005, the Company had hedged approximately 48% of the estimated remaining 2005 fuel consumption, representing approximately 98 million U.S. gallons at an average price of U.S.\$0.79 per U.S. gallon, and approximately 17% of the estimated 2006 fuel consumption, representing approximately 69 million U.S. gallons at an average price of U.S.\$0.89 per U.S. gallon.

For the three months ended June 30, 2005, the Company realized gains of \$43 million from its fuel hedging activities compared to \$23 million in the comparative quarter of 2004. For the first half of 2005, the Company's hedging activities resulted in realized gains of \$81 million compared to \$41 million in the same period of 2004.

Other comprehensive income for the quarter ended June 30, 2005 included a reduction in unrealized gains of \$31 million, \$21 million after tax, compared to unrealized gains of \$23 million, \$15 million after tax, for the same period in 2004. For the first half of 2005 and 2004, other comprehensive income included unrealized gains of \$47 million, \$32 million after tax, and \$43 million, \$29 million after tax, respectively.

At June 30, 2005, Accumulated other comprehensive loss included unrealized gains of \$139 million, \$94 million after tax (\$92 million, \$62 million after tax at December 31, 2004), of which \$133 million relates to derivative instruments that will mature within the next twelve months and are presented in Other current assets.

#### *Interest rate*

In the first quarter of 2004, in anticipation of future debt issuances, the Company entered into treasury lock transactions for a notional amount of U.S.\$380 million to fix the treasury component on these future debt issuances. The Company settled these treasury locks at a gain of U.S.\$9 million (Cdn\$12 million) upon the pricing of the U.S.\$500 million 6.25% Debentures due 2034, subsequently issued on July 9, 2004. The realized gain of \$12 million accumulated in other comprehensive loss is being recorded into income, as a reduction of interest expense, over the term of the debt based on the interest payment schedule.

At June 30, 2005, Accumulated other comprehensive loss included an unamortized gain of \$12 million, \$8 million after tax.

### **Recent accounting pronouncements**

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. The standard applies to all voluntary changes in accounting principle, and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, the standard requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The standard is effective for fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 to have a material impact on its financial statements.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" an interpretation of FASB Statement No. 143. The Interpretation clarifies that an obligation to perform an asset retirement activity exists, even if there may be uncertainty about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred, generally upon acquisition, construction, or development and/or through the normal operation of the asset, if the fair value of the liability can be reasonably estimated. This Interpretation is effective no later than December 31, 2005. The Company is currently evaluating the effect of the Interpretation on its

financial statements.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which requires expensing of all options issued, modified or settled based on the grant-date fair value and recognizing the expense over the period during which an employee is required to provide service (vesting period). The standard also requires that cash settled awards be measured at fair value at each reporting date until ultimate settlement. In April 2005, the U.S. Securities and Exchange Commission extended the effective application date of

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this standard from interim or annual reporting periods beginning after June 15, 2005 to annual reporting periods beginning after December 15, 2005. Upon adoption in January 2006, the Company does not expect this standard to have a significant impact on its results of operations.

### **Future rate enactments**

In the second quarter of 2005, the Federal Budget Bill enacted into law did not contain the reductions to the federal corporate income tax rate that were announced in the first quarter by the Canadian Federal Government. The Government has reiterated its commitment to reintroduce legislation at the earliest opportunity to reduce the federal corporate income tax rates as previously announced.

In the second quarter of 2005, the Quebec Government announced increases to the provincial corporate income tax rate as part of the Provincial Budget. These increases will be phased in, commencing in 2006, and will ultimately result in an increase of 2.5% to the provincial income tax rate. As a result, the Company's deferred income tax liability will be increased when the new income tax rates are enacted into law.

### **Common stock**

#### *Share repurchase programs*

On July 20, 2005, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 16.0 million common shares between July 25, 2005 and July 24, 2006 pursuant to a normal course issuer bid, at prevailing market prices.

In the second quarter of 2005, the Company completed its 14.0 million share repurchase program, which began November 1, 2004, repurchasing the remaining 5.4 million common shares for \$401 million, at an average price of \$74.30 per share. The total cost of the program was \$1,021 million (average price per share of \$72.94), with 10.0 million shares repurchased in 2005 for \$748 million (average price per share of \$74.78).

#### *Outstanding share data*

As at July 20, 2005, the Company had 275.4 million common shares outstanding.

### **Critical accounting policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and

liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from these estimates. The Company's policies for personal injury and other claims, environmental claims, depreciation, pensions and other post-retirement benefits, and income taxes, require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements and as such, are considered to be critical. The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Company's results of operations and financial position for the three years ended December 31, 2004, as well as the effect of changes to these estimates, can be found on pages 45 to 49 of the Company's 2004 Annual Report. As at June 30, 2005 and December 31 and June 30, 2004, the Company had the following amounts outstanding:

	<b>June 30 2005</b>	December 31 2004	June 30 2004
<i>(In millions)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>
Prepaid benefit cost for pensions	\$ <b>561</b>	\$ 515	\$ 442
Accrued benefit cost for pensions	<b>161</b>	156	167
Provision for personal injury and other claims	<b>679</b>	642	637
Provision for environmental costs	<b>117</b>	113	118
Net deferred income tax provision	<b>4,729</b>	4,359	5,027
Accrued benefit cost for post-retirement benefits other than pensions	<b>327</b>	309	272
Properties	<b>20,057</b>	19,715	19,789

Management discusses the development and selection of the Company's critical accounting estimates with the Audit Committee of the Company's Board of Directors and the Audit Committee has reviewed the Company's related disclosures.

### **Business risks**

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the specific risks set forth below as well as other

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## **CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS(U.S. GAAP)**

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risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

### **Competition**

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company (CP) which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company, long distance trucking companies and, in many markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

In addition to trucking competition, and to a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

The significant consolidation of rail systems in the United States has resulted in larger rail systems that are able to offer seamless services in larger market areas and accordingly, compete effectively with the Company in certain markets. This requires the Company to consider transactions that would similarly enhance its own service. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

#### **Environmental matters**

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the United States concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred for environmental matters in the next several years, based on known information, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In railroad and related transportation operations, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

The ultimate cost of known contaminated sites cannot be definitely established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up technique, the Company's share of the costs and evolving regulatory standards governing environmental liability. Also, additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases. For these reasons, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs.

## Personal injury and other claims

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational disease and damage to property. The Company maintains provisions for such items, which it considers to be adequate for all of its outstanding or pending claims. The final outcome with respect to actions outstanding or pending at June 30, 2005, or with respect to future claims, cannot be predicted

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with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

### Labor negotiations

#### *Canadian workforce*

As of July 2005, the Company had in place labor agreements covering approximately 99% of the Company's Canadian unionized workforce. For employees of the Algoma Central Railway, representing the remaining 1% of the unionized workforce, although their agreements expired on January 31, 2005, the terms and conditions in place remain in effect until the bargaining process is completed.

Following the acquisition of BC Rail, the Company reached implementing agreements in December 2004 for BC Rail employees with the Council of Trade Unions and its members, representing all unions, regarding the integration of the various collective agreements. In March 2005, under Section 18 of the Canada Labour Code, the Company filed a request to amend the current bargaining agent certificates at BC Rail to correspond with those agents representing the same employee groups at CN. The Canada Industrial Relations Board is presently reviewing the Company's request.

There can be no assurance that the Company will be able to renew and have ratified its collective agreements without any strikes or lockouts.

#### *U.S. workforce*

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. Grand Trunk Western Railroad Incorporated (GTW), Duluth, Winnipeg and Pacific (DWP), ICRR, CCP Holdings, Inc. (CCP), Wisconsin Central Transportation Corporation (WC), Duluth Missabe & Iron Railroad (DMIR), Bessemer & Lake Erie (BLE) and Pittsburgh & Conneaut Dock Company (PCD) have bargained on a local basis rather than holding national, industry wide negotiations because they believe it results in agreements that better address both the employees' concerns and preferences, and the railways' actual operating environment. However, local negotiations may not generate federal intervention in a strike or lockout situation, since a dispute may be localized. The Company believes the potential mutual benefits of local bargaining outweigh the risks.

As of July 2005, the Company had in place agreements with bargaining units representing the entire unionized workforce at GTW, DWP, ICRR, CCP, DMIR, BLE and PCD, and 93% of the unionized workforce at WC. Agreements in place have various moratorium provisions, ranging from the end of 2001 to the end of 2008, which preserve the status quo in respect of given areas during the terms of such moratoriums. Several of these agreements are currently under renegotiation and several will open for negotiation in 2005.

Negotiations are ongoing with the bargaining units with which the Company does not have agreements or settlements. Until new agreements are reached or the processes of the Railway Labor Act have been exhausted,

the terms and conditions of existing agreements or policies continue to apply. Although the Company does not anticipate work action related to these negotiations while they are ongoing, there can be no assurance that there will not be any such work action and that the resolution of these negotiations will not have a material adverse effect on the Company's financial position or results of operations.

### **Regulation**

The Company's rail operations in Canada are subject to regulation as to (i) rate setting and network rationalization by the Canadian Transportation Agency (the Agency) under the Canada Transportation Act (the CTA), and (ii) safety 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 regulation as to (i) economic regulation by the Surface Transportation Board (STB) (the successor to the Interstate Commerce Commission) and (ii) safety by the Federal Railroad Administration. As such, various Company business transactions must gain prior regulatory approval, with attendant risks and uncertainties. The Company is also subject to a variety of health, safety, security, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, issued its report to the Minister of Transport at the end of June 2001. The report was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes affecting all modes of transportation, including rail. On February 25, 2003, the Canadian Minister of Transport released its policy document *Straight Ahead - A Vision for Transportation in Canada* and tabled in the House of Commons Bill C-26 entitled *An Act to Amend the Canada Transportation Act and the Railway Safety Act, to enact the VIA Rail Canada Act and to make consequential amendments to other Acts*. Bill C-26 died on the Order Paper (was terminated) when Parliament was prorogued on November 12, 2003. On March 24, 2005, the Minister of Transport tabled Bill C-44 entitled *An Act to amend the Canada Transportation Act and the Railway Safety Act, to enact the VIA Rail Canada Act and to make consequential amendments to other Acts*. No assurance can be given that any future legislative action by the federal government or other future governmental initiatives will not materially adversely affect the Company's financial position or results of operations.

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## **CANADIAN NATIONAL RAILWAY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS(U.S. GAAP)**

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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. In addition, the STB is authorized by statute to commence regulatory proceedings if it deems them to be appropriate. No assurance can be given that any future regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations, or its competitive and financial position.

The Company is subject to statutory and regulatory directives in the United States addressing homeland security concerns. These include border security arrangements, pursuant to an agreement the Company and CP entered into with U.S. Customs and Border Protection (CBP) and the Canada Border Services Agency (CBSA). These requirements include advance electronic transmission of cargo information for U.S.-bound traffic and cargo screening (including gamma ray and radiation screening), as well as U.S. government imposed restrictions on the transportation into the United States of certain commodities. In the fourth quarter of 2003, the CBP issued regulations to extend advance notification requirements to all modes of transportation and the U.S. Food and Drug Administration promulgated interim final rules requiring advance notification by all modes for certain food imports into the United States. CBSA is also working on implementation of advance notification requirements for Canadian-bound traffic. The Company has also worked with the Association of American Railroads to develop and put in place an extensive industry-wide security plan to confront 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. While the Company will continue to work closely with the CBSA, CBP, and other Canadian and U.S. agencies, as above, no assurance can be given that future decisions by the U.S., Canadian, provincial, State, or local governments on homeland security matters, or joint decisions by the industry in response to threats to the North American rail network, will not materially adversely affect the Company's operations, or its competitive and financial position.

In October 2002, the Company became the first North American railroad to gain membership in the U.S. Customs Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a joint government-business initiative designed to build cooperative relationships that strengthen overall supply chain and border security on goods exported to the U.S. The Company is also designated as a low-risk carrier under the Customs Self-Assessment (CSA) program, a CBSA program designed to expedite the cross-border movement of goods of CSA-accredited importing companies for goods imported into Canada.

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. On February 4, 2004, the Maritime Administration and the U.S. Coast Guard issued a Joint Notice of Proposed Rulemaking, proposing modifications to the regulations governing vessel documentation for lease financing for vessels engaged in the coastwise trade. In addition, the U.S. Congress has from time to time considered modifications to the legislation governing the United States coastwise trade. As a result of maritime legislation enacted in 2004, the regulations governing the Company's acquisition of these vessels should not be affected. Subsequent to the enactment of this legislation, on April 13, 2005, the Coast Guard and Maritime Administration withdrew their proposed rulemaking, and plan to publish a new notice of proposed rulemaking in the future to address the legislation's provisions. No assurance can be given that any future legislative or regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations, or its competitive and financial position.

### **Business prospects and other risks**

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicity in demand. Many of the bulk commodities the Company transports move offshore and are affected more by global rather than North American economic conditions. The Company's results of operations can be expected to reflect these conditions because of the significant fixed costs inherent in railroad operations.

Global, as well as North American trade conditions, including trade barriers on certain commodities, may interfere with the free circulation of goods across Canada and the United States.

Overall return in the capital market, and the level of interest rates affect the funded status of the Company's pension plans as well as the Company's results of operations. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may increase future pension contributions and could have a material adverse effect on the Company's results of operations. The funding requirements as well as the impact to the results of operations will be determined following the completion of future actuarial valuations.

Potential terrorist actions can have a direct or indirect impact on the transportation infrastructure, including railway infrastructure in North America, and interfere with the free flow of goods.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (U.S. GAAP)

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International conflicts can also have an impact on the Company's markets.

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Based on the Company's current operations, 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 approximately \$8 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 affect the Company's revenues and expenses.

Should a major economic slowdown or recession occur in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be adversely affected.

In addition to the inherent risks of the business cycle, the Company's operations are occasionally susceptible to severe weather conditions, which can disrupt operations and service for the railroad as well as for the Company's customers. In recent years, severe drought conditions in western Canada, for instance, significantly reduced bulk commodity revenues, principally grain.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

### Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2005, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been made known to them.

During the second quarter ending June 30, 2005, the Company completed the integration of GLT and BC Rail into its SAP and other enterprise systems, thereby enhancing the Company's internal control over financial reporting, as its core financial and accounting system is applied across all of its rail operations. Except as noted above, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is undergoing a comprehensive effort in preparation for compliance with section 404 of the Sarbanes-Oxley Act for the year ending December 31, 2006. This effort includes, among other things, evaluating the adequacy of the Company's documentation of controls, assessing the effectiveness of control design, and testing the operation of the controls as designed.

In the course of its evaluation, management has identified certain deficiencies in its internal control over financial reporting. These deficiencies are being addressed through a detailed remediation program. The Company does not believe that any of the deficiencies identified to date, individually or in the aggregate, result in a material weakness to its internal control over financial reporting.

Additional information, including the Company's 2004 Annual Information Form and Form 40-F, may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml), respectively.

Montreal, Canada  
July 20, 2005

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**Statement of CEO Regarding Facts and  
Circumstances Relating to Exchange Act Filings**

I, E. Hunter Harrison, certify that:

- (1) I have reviewed this report on Form 6-K of Canadian National Railway Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Paragraph omitted pursuant to SEC Release Nos.33-8238 and 34-47986];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2005

(s) E. Hunter Harrison

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E. Hunter Harrison  
President and Chief Executive Officer

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Item 5

**Statement of CFO Regarding Facts and  
Circumstances Relating to Exchange Act Filings**

I, Claude Mongeau, certify that:

- (1) I have reviewed this report on Form 6-K of Canadian National Railway Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Paragraph omitted pursuant to SEC Release Nos.33-8238 and 34-47986];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2005

(s) Claude Mongeau

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Claude Mongeau  
Executive Vice-President and Chief  
Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Canadian National Railway Company**

Date: July 29, 2005

By: (s) Cristina Circelli

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Name: Cristina Circelli  
Title: General Counsel