



THE MARKET

A leader in North American freight transportation, CN competes today on a global scale. As obstacles to worldwide trade vanish and limits to global collaboration disappear, the unique value of rail freight transportation has never been more evident. No other surface transportation mode matches rail's ability to move large volumes cost-effectively over long distances. None comes close to its fuel efficiency and its low impact on the environment. In today's interconnected world, CN combines high-quality service, industry leadership, and innovation in a quest to promote the competitiveness of its customers both close to home and around the world.

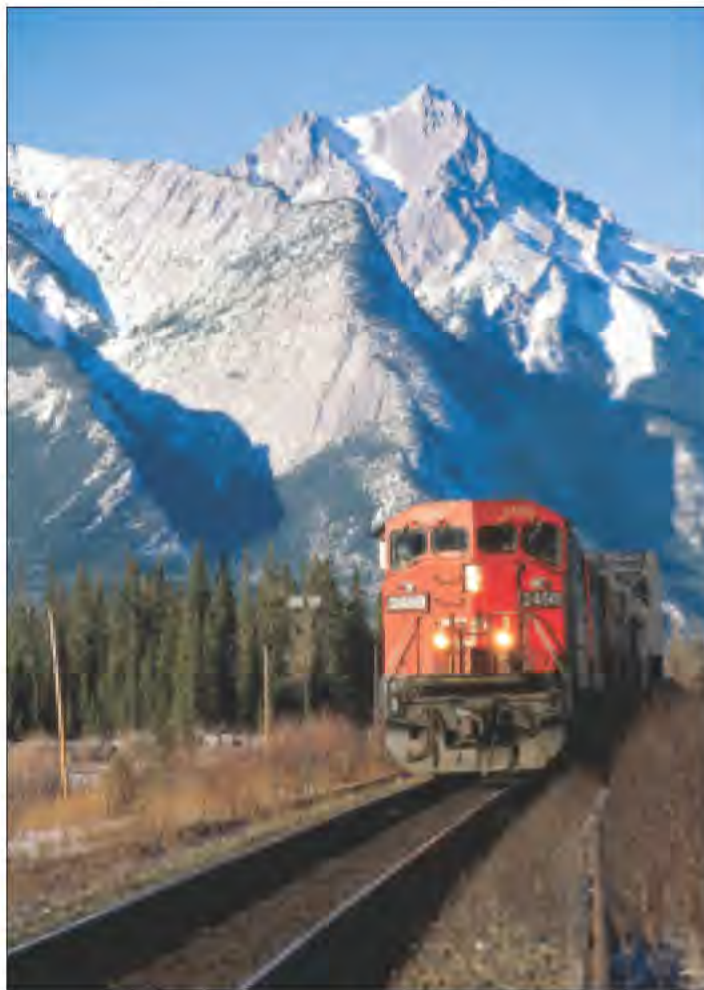
CN is uniquely positioned to capture a significant share of the burgeoning business that globalization has spurred. With 20,000 miles of track in Canada and the United States, it is the only railroad to serve ports on three coasts — Atlantic, Pacific and Gulf of Mexico. CN's sprawling network facilitates the flow of trade between North America and Asia, Europe and South America. Indeed, fully one-quarter of all the traffic it handles involves shipments moving to or from overseas points, while more than 30 per cent moves between Canada and the United States.

CN's global vision is the force behind CN WorldWide and CN WorldWide North America, new units that focus CN's expertise in every aspect of transportation on the needs of customers both in North America and located oceans away.



ACHIEVEMENTS

CN has always focused on innovation — building North America's first diesel locomotive in the 1920s, for example, and using radio to entertain passengers aboard its trains when radio was still a novelty. That spirit of innovation continues to animate the company as it focuses on the job it knows best: running a top-quality freight railroad.



In the early 1990s, CN began a drive that would quickly transform the company into the best and most efficient on the continent, truly earning the title "North America's Railroad." To maintain that position, the railroad follows five pillars of success: deliver the best possible service to customers; control costs; make the most effective use of assets; operate with safety uppermost; and develop the most highly skilled and motivated employees in the business.

HISTORY

CN's history goes back to 1836 when Canada's very first railroad, the Champlain and St. Lawrence, linked Laprairie with Saint-Jean south of Montreal. Subsequent decades saw an enormous railroad boom in Canada, but not all of the companies flourished. During World War I, it became clear that only government intervention could forestall a catastrophic financial crisis. The upshot, in 1919 shortly after the war, was the nationalization and amalgamation of hundreds of troubled rail companies into a new government-owned corporation, the Canadian National Railway Company. One of its major components was

the venerable Grand Trunk Railway, which had long before absorbed the Champlain and St. Lawrence.

CN's fortunes waxed and waned over the next few decades as the industrialized world experienced unprecedented economic growth, deep depression, world war and war's complex legacy. Trucking firms eroded the rail sector's market share, and some believed that the historic rail mode had become a sunset industry.

That changed in the 1980s when deregulation made it easier for the industry to compete. By that time, CN's status as a government-owned corporation had clearly become a handicap in the marketplace. A successful drive to strengthen the company's financial position led the government of Canada to privatize CN, selling all its shares to investors in November 1995.

The new investor-owned CN next focused on expanding its presence in the marketplace. It first acquired the Illinois Central Railroad in 1998, then the Wisconsin Central in 2001. These moves gave CN direct access to the US South and Midwest as well as to ports on the Gulf of Mexico. CN further extended its franchise in 2004, acquiring Great Lakes Transportation of Pennsylvania and BC Rail in British Columbia.

THE PRODUCT

CN offers customers *precision railroading* — a level of service that no other railroad in North America supplies. Precision railroading focuses not merely on the movement of trains but on the movement of each individual shipment. Rather than waiting until reaching a full complement of carloads before dispatching a train, CN runs its trains on a scheduled basis — like clockwork. Each shipment is assigned a trip plan from origin to destination, and CN is committed to living up to that plan in every respect. For customers, that means faster, more reliable delivery, which in turn means that they can plan production schedules and manage inventory more effectively, reduce distribution costs and serve their own customers more reliably. In short, precision railroading translates into CN's promise to "do what we say we'll do."

CN WorldWide and CN WorldWide North America extend CN's services beyond rail alone. These units schedule and manage the shipment of goods, regardless of mode — rail, trucking, water — integrating port handling, warehousing,



customs and billing to make life easier for shippers. CN WorldWide serves customers in Asia and Europe, with plans to expand into South America, managing rail, trucking and vessels, port handling and warehousing and customs to provide door-to-door service across the Atlantic and Pacific oceans. CN WorldWide North America focuses on the continental market, providing a single source of service from ground transportation to warehousing and distribution to customs brokerage and bulk handling.



RECENT DEVELOPMENTS

CN is determined to pursue new markets and help its customers succeed in theirs. The intermodal terminal at Prince Rupert, BC, opened in 2007, is a good example of this determination. Served exclusively by CN, the terminal capitalizes on Prince Rupert's natural advantages (closest to Asia of any North American port, deepest harbour, closest to open ocean) to create a highly competitive option for exporters and importers.

Advanced technology enables CN to improve customer service as well as its own productivity.

SmartYard, for example, shortens transit times and enhances reliability while streamlining processes in CN's massive classification yards. The SmartYard information system combines data from various sources to generate the optimal sequence for rail cars in making up trains — and has already had a significant time-saving impact.

CN's Alternative Fuels Strategy helps producers of various non-traditional fuels reach markets and opens up new business opportunities for the company. These fuels include ethanol, coal-to-liquid (CTL) fuel, and biodiesel. In each instance, CN is well positioned to supply producers with the raw materials they need and to move their products to market.

Even though rail is unquestionably the most environment-friendly land-based transport mode, CN continues to find ways to improve on its record. The hundreds of new locomotives acquired over the past few years, for example, are not only 15 per cent more fuel-efficient but emit significantly less exhaust than older units. At the same time, partnership arrangements with other railroads on sharing infrastructure help to make the use of these assets more productive.

PROMOTION

CN uses conventional print advertising to reach targeted audiences in the shipping community, promoting its role as "North America's Railroad."

CN's commitment to the community is best demonstrated through its *All Aboard for Safety* program. In one of the program's many initiatives, CN police officers give presentations about safety around train tracks and railroad property to some 300,000 students and adults each year.

CN also believes in sponsoring local and national events as a way of celebrating excellence while giving back to the communities the railroad touches. In addition to supporting numerous initiatives at the local level, CN has sponsored the Spruce Meadows equestrian tournament in Calgary for a number of years and in 2006 became the title sponsor of the CN Canadian Women's Open golf tournament. CN's Miracle Match program links the Open with major fund-raising drives to support the



local children's hospital, with CN matching donations from the public dollar-for-dollar.

BRAND VALUES

Most fundamentally, the CN brand stands for service, leadership and innovation. CN lives up to these values by giving customers a premium transportation product that will contribute to their success in domestic and international markets in a major way.

CN's classic logo aptly captures the spirit of these brand values. Introduced in the early 1960s to reflect a renewed sense of innovation and a more energetic approach to business, it stands today as the most widely recognized corporate symbol in Canada and was recently named among the top 50 logos of all time worldwide. Its simple, straightforward design, with clean, fluid lines, symbolizes movement, purpose, and vision.

The CN brand also reflects a sense of responsibility to communities and the public to deliver its transportation product in the safest and most environment-friendly manner possible. The almost 22,000 CN railroaders who deliver that product are a special breed: skilled, knowledgeable, motivated and, most of all, imbued with a passion for their business.

THINGS YOU DIDN'T KNOW ABOUT CN

- CN is the only railroad to serve ports on three North American coasts — Pacific, Atlantic and Gulf of Mexico.
- CN is the sole rail link to northern Alberta's oil sands development, with special distribution centres to facilitate the flow of commodities to and from production sites.
- CN's privatization in 1995 was the largest and most successful in Canadian history.
- The value of CN shares has increased by more than 1,000 per cent since the company became investor-owned.