CANADIAN NATIONAL RAILWAY CO
Form 6-K
July 24, 2009

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, 2009

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 X

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 X

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 X

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 X

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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CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

Item 1

North America's Railroad

NEWS RELEASE

CN reports Q2-2009 net income of C$387 million, or C$0.82 per diluted share, compared with year-earlier net income of C$459 million, or C$0.95 per diluted share

MONTREAL, July 20, 2009 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the second quarter ended June 30, 2009.

Second-quarter 2009 highlights

- Net income declined to C$387 million, or C$0.82 per diluted share, from year-earlier net income of C$459 million, or C$0.95 per diluted share, as a result of depressed North American and global economies driving lower volumes.
- Revenues declined 15 per cent to C$1,781 million, carloads declined 22 per cent to 928,000, and revenue ton-miles declined 14 per cent, with weakness in almost all market segments.
- Operating expenses declined 14 per cent to C$1,198 million, reflecting a significant reduction in year-over-year fuel prices and extensive cost-containment measures in response to lower traffic.
- Operating income declined 18 per cent to C$583 million, while the operating ratio increased by one percentage point to 67.3 per cent.
- Six-month 2009 free cash flow increased to C$463 million from C$225 million generated during the first-half of 2008. (1)

CN's second-quarter 2009 net income included:

- A deferred income tax recovery of C$28 million ($0.06 per diluted share), of which C$12 million (C$0.03 per diluted share) resulted from the enactment of a lower provincial corporate income tax rate and C$16 million (C$0.03 per diluted share) resulted from the re-capitalization of a foreign investment.
- Costs of C$2 million after-tax (nil per diluted share) related to the acquisition of the principal rail lines of the Elgin, Joliet and Eastern Railway Company (EJ&E).

Excluding these items, CN reported adjusted second-quarter 2009 net income of C$361 million, or C$0.76 per diluted share. (1)

The strengthening of the U.S. dollar affected the conversion of the Company's U.S.-dollar-denominated revenues and expenses, increasing second-quarter 2009 net income by C$15 million, or C$0.03 per diluted share.

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CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

CN's second-quarter 2008 net income also included a deferred income tax recovery of C$23 million (C$0.05 per diluted share) resulting from the enactment of lower provincial corporate income tax rates. Excluding that item, adjusted second-quarter 2008 net income was C$436 million, or C$0.90 per diluted share. (1)

E. Hunter Harrison, president and chief executive officer, said: "The second quarter of 2009 saw a continuation of significant weakness in most of our commodity groups as a result of the current recession in North America and difficult global economic conditions, with all groups but coal registering double-digit declines in carloadings. The biggest declines were in metals and minerals shipments, principally on account of a sharp reduction in short-haul iron ore movements in northern Minnesota, and in automotive and forest products traffic. Intermodal, grain and fertilizers, and petroleum and chemicals saw lesser declines. Coal was a bright spot, however, as a result of higher U.S. shipments resulting from our acquisition of the EJ&E.

"While the current economic environment continues to affect our business significantly and we remain focused on adjusting expenses accordingly, we see some signs that several markets are stabilizing and we hope the economy will begin to recover in the second half of this year. CN's solid cost structure and operational expertise will position us well to meet the challenges and opportunities that lie ahead."

Second-quarter 2009 revenues, traffic volumes and expenses

The 15 per cent decline in second-quarter 2009 revenues resulted from significantly lower volumes in almost all markets as a result of prevailing economic conditions in the North American and global economies, and a lower fuel surcharge due to year-over-year decreases in applicable fuel prices as well as lower volumes. Partly offsetting these factors were the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues, freight rate increases, and a positive change in traffic mix.

Second-quarter 2009 carloadings declined 22 per cent to 928,000 from 1,188 thousand in the year-earlier period. Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, declined by 14 per cent from second-quarter 2008.

Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, was flat in the second quarter of 2009 when compared to the same period of 2008. The positive translation impact of the weaker Canadian dollar and freight rate increases were entirely offset during the quarter by the impact of a lower fuel surcharge and an increase in the average length of haul.

The 14 per cent decline in second-quarter 2009 operating expenses was primarily due to lower fuel costs and reduced expenses for purchased services and material and labor, partly reflecting the impact of reduced freight volumes and management's cost-reduction initiatives. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S.-dollar-denominated expenses.

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

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PRESS RELEASE

Forward-Looking Statements

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. Implicit in these statements, particularly in respect of long-term growth opportunities, is the Company's assumption that such growth opportunities are less affected by the current situation in the North American and global economies. The Company cautions that its assumptions may not materialize and that the current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. The Company cautions that its results could differ materially from those expressed or implied in such forward-looking statements. Important factors that could cause such differences include, but are not limited to, the effects of adverse general economic and business conditions, including the current deep recession in the North American economy and the global economic contraction in 2009, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labor negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of major risks.

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

CN – Canadian National Railway Company and its operating railway subsidiaries – spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the Company's website at www.cn.ca.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)
(In millions, except per share data)
Item 2

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
		(Unaudited)		
Revenues	$ 1,781	$ 2,098	$ 3,640	$ 4,025
Operating expenses				
Labor and fringe benefits	413	392	867	853
Purchased services and material	253	283	544	568
Fuel	174	399	356	709
Depreciation and amortization	199	176	402	351
Equipment rents	70	60	152	124
Casualty and other	89	81	255	190
Total operating expenses	1,198	1,391	2,576	2,795
Operating income	583	707	1,064	1,230
Interest expense	(108)	(87)	(220)	(173)
Other income (Note 3)	9	9	170	3
Income before income taxes	484	629	1,014	1,060
Income tax expense (Note 7)	(97)	(170)	(203)	(290)
Net income	$ 387	$ 459	$ 811	$ 770
Earnings per share (Note 10)				
Basic	$ 0.83	$ 0.96	$ 1.73	$ 1.61
Diluted	$ 0.82	$ 0.95	$ 1.72	$ 1.59
Weighted-average number of shares				
Basic	468.7	476.4	468.5	479.6
Diluted	473.0	482.0	472.7	485.3

See accompanying notes to unaudited consolidated financial statements.

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

	June 30 2009 (Unaudited)	December 31 2008	June 30 2008 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 431	$ 413	$ 161
Accounts receivable (Note 4)	865	913	843
Material and supplies	258	200	217
Deferred income taxes	113	98	67
Other	96	132	88
	1,763	1,756	1,376
Properties	23,160	23,203	20,864
Intangible and other assets	1,814	1,761	2,113
Total assets	$ 26,737	$ 26,720	$ 24,353
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and other	$ 1,270	$ 1,386	$ 1,289
Current portion of long-term debt	506	506	85
	1,776	1,892	1,374
Deferred income taxes	5,443	5,511	5,100
Other liabilities and deferred credits	1,319	1,353	1,381
Long-term debt (Note 4)	7,093	7,405	6,389
Shareholders' equity:			
Common shares	4,203	4,179	4,208
Accumulated other comprehensive loss	(207)	(155)	(1)
Retained earnings	7,110	6,535	5,902
	11,106	10,559	10,109
Total liabilities and shareholders' equity	$ 26,737	$ 26,720	$ 24,353

See accompanying notes to unaudited consolidated financial statements.

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	
	2009	2008	2009	2008
		(Unaudited)		
Common shares (1)				
Balance, beginning of period	$ 4,188	$ 4,241	$ 4,179	$ 4,283
Stock options exercised and other	15	19	24	42
Share repurchase programs (Note 4)	-	(52)	-	(117)
Balance, end of period	$ 4,203	$ 4,208	$ 4,203	$ 4,208
Accumulated other comprehensive loss				
Balance, beginning of period	$ (126)	$ 9	$ (155)	$ (31)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations	(583)	(47)	(332)	140
Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	580	41	322	(141)
Pension and other postretirement benefit plans (Note 6):				
Amortization of net actuarial loss (gain) included in net periodic benefit cost (income)	1	(1)	1	(2)
Amortization of prior service cost included in net periodic benefit cost (income)	-	6	1	12
Other comprehensive income (loss) before income taxes	(2)	(1)	(8)	9
Income tax recovery (expense)	(79)	(9)	(44)	21
Other comprehensive income (loss)	(81)	(10)	(52)	30
Balance, end of period	$ (207)	$ (1)	$ (207)	$ (1)
Retained earnings				
Balance, beginning of period	$ 6,841	$ 5,823	$ 6,535	$ 5,925
Net income	387	459	811	770
Share repurchase programs (Note 4)	-	(271)	-	(573)
Dividends	(118)	(109)	(236)	(220)
Balance, end of period	$ 7,110	$ 5,902	$ 7,110	$ 5,902

See accompanying notes to unaudited consolidated financial statements.

(1)

During the three and six months ended June 30, 2009, the Company issued 0.6 million and 0.8 million common shares, respectively, as a result of stock options exercised. At June 30, 2009, the Company had 469.0 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	
	2009	2008	2009	2008
	(Unaudited)			
Operating activities				
Net income	$ 387	$ 459	$ 811	$ 770
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	199	176	402	351
Deferred income taxes	40	89	50	114
Gain on disposal of property (Note 3)	-	-	(157)	-
Other changes in:				
Accounts receivable	28	(233)	29	(468)
Material and supplies	4	(6)	(49)	(54)
Accounts payable and other	(9)	(39)	(141)	(98)
Other current assets	5	22	41	51
Other	(22)	(59)	(36)	(92)
Cash provided from operating activities	632	409	950	574
Investing activities				
Property additions	(309)	(352)	(496)	(529)
Acquisitions, net of cash acquired (Note 3)	-	-	(373)	-
Disposal of property (Note 3)	40	-	150	-
Other, net	33	9	37	20
Cash used by investing activities	(236)	(343)	(682)	(509)
Financing activities				
Issuance of long-term debt	-	1,597	1,440	2,652
Reduction of long-term debt	(187)	(1,418)	(1,459)	(1,998)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	13	16	15	34
Repurchase of common shares	-	(323)	-	(690)
Dividends paid	(118)	(109)	(236)	(220)
Cash used by financing activities	(292)	(237)	(240)	(222)
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	(22)	(2)	(10)	8
Net increase (decrease) in cash and cash equivalents	82	(173)	18	(149)

Cash and cash equivalents, beginning of period	349	334	413	310
Cash and cash equivalents, end of period	$ 431	$ 161	$ 431	$ 161
Supplemental cash flow information				
Net cash receipts from customers and other	$ 1,834	$ 1,886	$ 3,738	$ 3,634
Net cash payments for:				
Employee services, suppliers and other expenses	(970)	(1,215)	(2,332)	(2,554)
Interest	(93)	(90)	(199)	(190)
Workforce reductions	(4)	(6)	(8)	(12)
Personal injury and other claims	(35)	(18)	(65)	(44)
Pensions	(28)	(31)	(28)	(53)
Income taxes	(72)	(117)	(156)	(207)
Cash provided from operating activities	$ 632	$ 409	$ 950	$ 574

See accompanying notes to unaudited consolidated financial statements.

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

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, 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, 2009, December 31, 2008, and June 30, 2008, and its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2009 and 2008.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2008 Annual Consolidated Financial Statements, except as disclosed in Note 2 – Accounting change. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's Interim Management's Discussion and Analysis (MD&A) and the 2008 Annual Consolidated Financial Statements and Notes thereto.

These unaudited Interim Consolidated Financial Statements and Notes thereto were approved by the Company's Board of Directors and issued on July 20, 2009. As at such date, there were no material subsequent events affecting any conditions that existed at the date of the balance sheet, including any estimates inherent in the process of preparing the financial statements.

Note 2 – Accounting change

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141 (R), "Business Combinations," which became effective for acquisitions with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Until December 31, 2008, the Company was subject to the requirements of SFAS No. 141, "Business Combinations," which required that acquisition-related costs be included as part of the purchase cost of an acquired business. As such, the Company had reported acquisition-related costs in Other current assets pending the closing of its acquisition of the Elgin, Joliet and Eastern Railway Company (EJ&E), which had been subject to an extensive U.S. Surface Transportation Board (STB) approval process. On January 31, 2009, the Company completed its acquisition of the EJ&E and accounted for the acquisition under SFAS No. 141 (R). The Company incurred acquisition-related costs, including costs to obtain regulatory approval, of approximately $49 million, of which $3 million was incurred in the second quarter of 2009. These costs were expensed and reported in Casualty and other in the Consolidated Statement of Income for the six months ended June 30, 2009 pursuant to SFAS No. 141 (R) requirements. At the time of adoption, this change in accounting policy had the effect of decreasing net income by $28 million ($0.06 per basic or diluted earnings per share) and Other current assets by $46 million. This change had no effect on the Consolidated Statement of Cash Flows. Disclosures prescribed by SFAS No. 141 (R) are presented in Note 3 – Acquisition and disposal of property.

Note 3 - Acquisition and disposal of property

Acquisition of Elgin, Joliet and Eastern Railway Company

On January 31, 2009, the Company acquired the principal rail lines of the EJ&E for a total cash consideration of U.S.$300 million (Cdn$373 million), paid with cash on hand. The EJ&E is a short-line railway previously owned by U.S. Steel Corporation (U.S. Steel) that operates over 198 miles of track and serves steel mills, petrochemical customers, utility plants and distribution centers in Illinois and Indiana, as well as connects with all the major railroads entering Chicago. Under the terms of the acquisition agreement, the Company acquired substantially all of the railroad operations of EJ&E, except those that support the Gary Works site in northwest Indiana and the steelmaking operations of U.S. Steel. The acquisition is expected to drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area.

The Company and EJ&E had entered into the acquisition agreement on September 25, 2007, and the Company had filed an application for authorization of the transaction with the STB on October 30, 2007. Following an extensive regulatory approval process, which included an Environmental Impact Statement (EIS) that resulted in conditions imposed to mitigate

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

municipalities' concerns regarding increased rail activity, expected along the EJ&E line, the STB approved the transaction on December 24, 2008. The STB also imposed a five-year monitoring and oversight condition, during which the Company is required to file with the STB monthly operational reports as well as quarterly reports on the implementation status of the STB-imposed mitigation conditions. This permits the STB to take further action if there is a material change in the facts and circumstances upon which it relied in imposing the specific mitigation conditions. Over the next few years, the Company has committed to spend approximately U.S.$100 million for railroad infrastructure improvements and over U.S.$60 million under a series of agreements with individual communities, a comprehensive voluntary mitigation program that addresses municipalities' concerns, and additional STB-imposed conditions that the Company has accepted with one exception. The Company has filed an appeal challenging the STB's condition requiring the installation of grade separations at two locations along the EJ&E at Company funding levels significantly beyond prior STB practice. Although the STB granted the Company's application to acquire control of the EJ&E, challenges have since been made by certain communities as to the sufficiency of the EIS which, if successful, could result in further consideration of the environmental impact of the transaction and mitigation conditions imposed. The Company strongly disputes the merit of these challenges, and has intervened in support of the STB's defense against them. The final outcome of such challenges, as well as the resolution of matters that could arise during the STB's five-year oversight of the transaction, 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.
The Company has accounted for the acquisition using the purchase method of accounting pursuant to SFAS No. 141 (R), "Business Combinations," which the Company adopted on January 1, 2009. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of EJ&E as of January 31, 2009, the date of acquisition. The costs incurred to-date to acquire the EJ&E of approximately $49 million were expensed and reported in Casualty and other in the Consolidated Statement of Income for the six months ended June 30, 2009 (see Note 2 - Accounting change).

The following table summarizes the consideration paid for EJ&E and the estimated fair value of the assets acquired and liabilities assumed that were recognized at the acquisition date. The Company has not finalized its valuation of such assets and liabilities. As such, the fair value is subject to change, although no material change is anticipated.

(In U.S. millions)		At January 31, 2009
Consideration		
Cash	$	300
Fair value of total consideration transferred	$	300
Recognized amounts of identifiable assets acquired and liabilities assumed		
Current assets	$	6
Other long-term assets		4
Property, plant and equipment		304
Current liabilities		(4)
Other long-term liabilities		(10)
Total identifiable net assets	$	300

The amount of revenues and net income of EJ&E included in the Company's Consolidated Statement of Income from the acquisition date to June 30, 2009, were $34 million and $7 million, respectively. The Company has not provided supplemental pro forma information relating to the pre-acquisition period as it was not considered material to the results of operations of the Company.

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

Disposal of Weston subdivision
In March 2009, the Company entered into an agreement with GO Transit to sell the property known as the Weston subdivision in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Rail Property"), for cash proceeds of $110 million before transaction costs, with a balance on sale of about $50 million placed in escrow on the Company's behalf and to be released in accordance with the terms of the agreement but no later than December 31, 2009. At June 30, 2009, $40 million had been released from escrow and was received by the Company. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Rail Property at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposition of $157 million ($135 million after-tax), including amounts related to the real estate as well as the retention of trackage and other rights. The Company accounted for the transaction in Other income under the full accrual method of accounting for real estate transactions.

Note 4 - Financing activities

Shelf prospectus and registration statement
In February 2009, the Company issued U.S.$550 million (Cdn$684 million) of 5.55% Notes due 2019. The debt offering was made under the Company's currently effective shelf prospectus and registration statement, filed by the Company in December 2007. Accordingly, the amount registered for offering under the shelf prospectus and registration statement has been reduced to U.S.$1.3 billion. The Company used the net proceeds of U.S.$540 million (Cdn$672 million) from the offering to repay a portion of its then outstanding commercial paper and to reduce a portion of its accounts receivable securitization program.

Revolving credit facility
As at June 30, 2009, the Company had letters of credit drawn on its U.S.$1 billion revolving credit facility, expiring in October 2011, of $236 million ($181 million as at December 31, 2008). The Company also had total borrowings under its commercial paper program of $5 million denominated in Canadian dollars. The weighted-average interest rate on these borrowings was 1.01%.

As at December 31, 2008, total borrowings under the Company's commercial paper program were $626 million, of which $256 million was denominated in Canadian dollars and $370 million was denominated in U.S. dollars (U.S.$303 million). The weighted-average interest rate on these borrowings was 2.42%.

Accounts receivable securitization
The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest for maximum cash proceeds of $600 million in a revolving pool of freight receivables to an unrelated trust. In the second quarter of 2009, the Company reduced the program limit from $600 million to $400 million until the end of 2009 to reflect the anticipated reduction in the use of the program.

Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the required reserve as stipulated in the agreement. The required reserve represents an amount set aside to allow for possible credit losses and is recognized by the Company as retained interest and recorded in Other current assets in its Consolidated Balance Sheet. The eligible freight receivables as defined in the agreement may not include delinquent or defaulted receivables, or receivables that do not meet certain obligor-specific criteria, including concentrations in excess of prescribed limits with any one customer.

During the first half of 2009, proceeds from collections reinvested in the securitization program were approximately $138 million and purchases of previously transferred accounts receivable were approximately $4 million. At June 30, 2009, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is generally limited to the receivables.

As at June 30, 2009, the Company had sold receivables that resulted in proceeds of $2 million under this program ($71 million at December 31, 2008), and recorded retained interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded as at December 31, 2008). The fair value of the retained interest approximated carrying value as a result of the short collection cycle and negligible credit losses.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Share repurchase program
During the first half of 2009, the Company did not repurchase any common shares under its 25.0 million share repurchase program, which expired on July 20, 2009. The Company repurchased a total of 6.1 million common shares since July 28, 2008, the inception of the program, for $331 million, at a weighted-average price of $54.42 per share.

Note 5 - Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the plans is provided in Note 11 – Stock plans, to the Company's 2008 Annual Consolidated Financial Statements. For the three and six months ended June 30, 2009, the Company recorded total compensation expense for awards under all plans of $25 million and $40 million, respectively, and $6 million and $34 million, respectively, for the same periods in 2008. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and six months ended June 30, 2009 was $7 million and $11 million, respectively, and $3 million and $10 million, respectively, for the same periods in 2008.

Cash settled awards
Following approval by the Board of Directors in January 2009, the Company granted 0.9 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 by the Company are generally scheduled for payout in cash after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital over the plan period. Payout is conditional upon the attainment of a minimum share price calculated using the average of the last three months of the plan period. As at June 30, 2009, 0.1 million RSUs remained authorized for future issuance under this plan.

The following table provides the 2009 activity for all cash settled awards:

	RSUs		Voluntary Incentive Deferral Plan (VIDP)	
In millions	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2008	1.3	0.9 (1)	0.1	1.8
Granted	0.9	-	-	0.1 (2)
Transferred into plan	-	-	-	0.1
Payout	-	(0.9)	-	(0.1)
Outstanding at June 30, 2009	2.2	-	0.1	1.9

(1) Includes 0.1 million of 2004 time-vested RSUs.
(2) Includes the Company's match and dividends earned on original deferred share units.

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

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

In millions, unless otherwise indicated	RSUs (1)					Vision (1)	VIDP (2)	Total
Year of grant	2009	2008	2007	2006	2004	2005	2003 onwards	
Stock-based compensation expense (recovery) recognized over requisite service period								
Six months ended June 30, 2009	$ 14	$ 2	$ 3	$ (2)	N/A	N/A	$ 14	$ 31
Six months ended June 30, 2008	N/A	$ 9	$ -	$ 7	$ 2	$ 2	$ 6	$ 26
Liability outstanding								
June 30, 2009	$ 14	$ 10	$ 12	$ -	$ -	N/A	$ 98	$ 134
December 31, 2008	N/A	$ 8	$ 9	$ 53	$ 3	$ -	$ 88	$ 161
Fair value per unit								
June 30, 2009 ($)	$ 35.19	$ 28.36	$ 22.93	N/A	N/A	N/A	$ 49.97	N/A
Fair value of awards vested during period								
Six months ended June 30, 2009	$ -	$ -	$ -	N/A	N/A	N/A	$ 1	$ 1
Six months ended June 30, 2008	N/A	$ -	$ -	$ -	$ -	$ -	$ 2	$ 2
Nonvested awards at June 30, 2009								
Unrecognized compensation cost	$ 13	$ 3	$ 1	N/A	N/A	N/A	$ 2	$ 19
Remaining recognition period (years)	2.50	1.50	0.50	N/A	N/A	N/A	3.50	N/A
Assumptions (3)								
Stock price ($)	$ 49.97	$ 49.97	$ 49.97	N/A	N/A	N/A	$ 49.97	N/A
Expected stock price volatility (4)	29%	32%	37%	N/A	N/A	N/A	N/A	N/A
Expected term (years) (5)	2.50	1.50	0.50	N/A	N/A	N/A	N/A	N/A
Risk-free interest rate (6)	1.52%	0.86%	0.31%	N/A	N/A	N/A	N/A	N/A
Dividend rate ($) (7)	$ 1.01	$ 1.01	$ 1.01	N/A	N/A	N/A	N/A	N/A

(1) Compensation cost is based on the fair value of the awards at period-end using the lattice-based valuation model that uses the assumptions as presented herein.

(2) Compensation cost is based on intrinsic value.

(3) Assumptions used to determine fair value are at June 30, 2009.

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

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

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

(7) Based on the annualized dividend rate.

Stock option awards
Following approval by the Board of Directors in January 2009, the Company granted 1.2 million conventional stock options to designated senior management employees. The stock option plan allows eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of grant. The options are exercisable during a period not exceeding 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At June 30, 2009, 12.3 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at June 30, 2009, including conventional and performance-accelerated options, was 10.5 million and 3.1 million, respectively.

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

The following table provides the activity of stock option awards in 2009. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on June 30, 2009 at the Company's closing stock price of $49.97.

	Options outstanding			
	Number of options	Weighted-average exercise price	Weighted-average years to expiration	Aggregate intrinsic value
	In millions			In millions
Outstanding at December 31, 2008(1)	13.2	$ 29.05		
Granted	1.2	$ 42.13		
Exercised	(0.8)	$ 15.33		
Outstanding at June 30, 2009 (1)	13.6	$ 30.47	4.5	$ 273
Exercisable at June 30, 2009 (1)	11.0	$ 26.59	3.5	$ 261

(1) Stock options with a U.S. dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

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

In millions, unless otherwise indicated Year of grant	2009	2008	2007	2006	2005	Total
Stock-based compensation expense recognized over requisite service period (1)						
Six months ended June 30, 2009	$ 6	$ 1	$ 1	$ 1	$ -	$ 9
Six months ended June 30, 2008	N/A	$ 5	$ 1	$ 1	$ 1	$ 8
Fair value per unit						
At grant date ($)	$ 12.60	$ 12.44	$ 13.36	$ 13.80	$ 9.19	N/A
Fair value of awards vested during period						
Six months ended June 30, 2009	$ -	$ 3	$ 3	$ 3	$ 3	$ 12
Six months ended June 30, 2008	N/A	$ -	$ 3	$ 3	$ 3	$ 9
Nonvested awards at June 30, 2009						
Unrecognized compensation cost	$ 8	$ 3	$ 2	$ 1	$ -	$ 14
Remaining recognition period (years)	3.5	2.5	1.5	0.5	-	N/A
Assumptions						
Grant price ($)	$ 42.13	$ 48.51	$ 52.79	$ 51.51	$ 36.33	N/A
Expected stock price volatility (2)	39%	27%	24%	25%	25%	N/A
Expected term (years) (3)	5.3	5.3	5.2	5.2	5.2	N/A
Risk-free interest rate (4)	1.97%	3.58%	4.12%	4.04%	3.50%	N/A
Dividend rate ($) (5)	$ 1.01	$ 0.92	$ 0.84	$ 0.65	$ 0.50	N/A

(1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.

(2) Based on the average of the historical volatility of the Company's stock over a period commensurate with the expected term of the award and the implied volatility from traded options on the Company's stock.

(3) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.

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

(5) Based on the annualized dividend rate.

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

Note 6 - Pensions and other postretirement benefits

For the three and six months ended June 30, 2009 and 2008, the components of net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

(a) Components of net periodic benefit income for pensions

	Three months ended June 30		Six months ended June 30	
In millions	2009	2008	2009	2008
Service cost	$ 22	$ 35	$ 44	$ 70
Interest cost	221	200	443	400
Expected return on plan assets	(252)	(251)	(504)	(502)
Amortization of prior service cost	-	5	-	10
Recognized net actuarial loss	2	-	3	-
Net periodic benefit (income)	$ (7)	$ (11)	$ (14)	$ (22)

(b) Components of net periodic benefit cost for other postretirement benefits

	Three months ended June 30		Six months ended June 30	
In millions	2009	2008	2009	2008
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	4	4	8	8
Curtailment gain	-	(1)	(3)	(3)
Amortization of prior service cost	-	1	1	2
Recognized net actuarial gain	(1)	(1)	(2)	(2)
Net periodic benefit cost	$ 4	$ 4	$ 6	$ 7

In 2009, the Company expects to make total contributions of approximately $130 million for all its defined benefit plans, of which $28 million was disbursed as at June 30, 2009.

Note 7 – Income taxes

In 2009, the Company recorded a deferred income tax recovery of $43 million in the Consolidated Statement of Income, of which $12 million and $15 million, recorded in the second and first quarters, respectively, resulted from the enactment of lower provincial corporate income tax rates; and $16 million recorded in the second quarter resulted from the recapitalization of a foreign investment.

In 2008, the Company recorded a deferred income tax recovery of $34 million in the Consolidated Statement of Income, of which $23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates and $11 million, recorded in the first quarter, resulted from net capital losses arising from the reorganization of a subsidiary.

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

Note 8 - Major commitments and contingencies

A. Commitments
As at June 30, 2009, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of $797 million ($1,006 million at December 31, 2008). The Company also has agreements with fuel suppliers to purchase approximately 95% of the estimated remaining 2009 volume, 64% of its anticipated 2010 volume, and 28% of its anticipated volumes for each of the years from 2011 through 2013, at market prices prevailing on the date of the purchase.

B. Contingencies
The Company becomes involved, from time to time, in various legal actions, including actions brought on behalf of various purported classes of claimants and claims relating to personal injuries, occupational disease, and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

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

United States
Employee work-related injuries, including occupational disease claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA), which requires either the finding of fault through the U.S. jury system or individual settlements, and represent a major liability for the railroad industry. With limited exceptions where claims are evaluated on a case-by-case basis, the Company follows an actuarial-based approach and accrues the expected cost for personal injury and property damage claims and asserted and unasserted occupational disease claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is conducted on an annual basis, in the fourth quarter, by an independent actuarial firm for occupational disease claims and non-occupational disease claims. 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, 2009, the Company had aggregate reserves for personal injury and other claims of $424 million, of which $114 million was recorded as a current liability ($454 million, of which $118 million was recorded as a current liability at December 31, 2008).
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, 2009, 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 results of operations, financial position or liquidity in a particular quarter or fiscal year.

C. 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.

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

Known existing environmental concerns
The Company has identified approximately 325 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 10 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

The ultimate cost of addressing these known contaminated sites cannot be definitely established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up techniques, the Company's share of the costs and evolving regulatory standards governing environmental liability. As a result, a liability is initially recorded when environmental assessments occur and/or remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted, is recorded net of insurance recoveries, and includes costs for remediation and restoration of sites, as well as significant monitoring costs. Environmental accruals, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates.

As at June 30, 2009, the Company had aggregate accruals for environmental costs of $112 million, of which $31 million was recorded as a current liability ($125 million, of which $30 million was recorded as a current liability as at December 31, 2008). The Company anticipates that the majority of the liability at June 30, 2009 will be paid out over the next five years. However, some costs may be paid out over a longer period. No individual site is considered to be material. Based on the information currently available, the Company considers its provisions to be adequate.

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

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

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

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

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 may extend beyond the term of the agreement. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit and surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business.

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

(i) Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2009 and 2020, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At June 30, 2009, the maximum exposure in respect of these guarantees was $225 million. There are no recourse provisions to recover any amounts from third parties.

(ii) Other guarantees

The Company, including certain of its subsidiaries, has granted irrevocable standby letters of credit and surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at June 30, 2009, the maximum potential liability under these guarantees was $466 million, of which $406 million was for workers' compensation and other employee benefits and $60 million was for equipment under leases and other. During 2009, 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, 2009, the Company had not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any additional payments associated with these guarantees. The majority of the guarantee instruments mature at various dates between 2009 and 2012.

(iii) General indemnifications

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to:

(a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements;
(b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements;
(c) contracts for the sale of assets and securitization of accounts receivable;
(d) contracts for the acquisition of services;
(e) financing agreements;
(f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors;
(g) transfer agent and registrar agreements in respect of the Company's securities;
(h) trust and other agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements;
(i) pension transfer agreements;

(j) master agreements with financial institutions governing derivative transactions; and

(k) settlement agreements with insurance companies or other third parties whereby such insurer or third party has been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements.

To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be determined with certainty.

During the period, the Company has entered into various indemnification contracts with third parties for which the maximum exposure for future payments cannot be determined with certainty. As a result, the Company was unable to determine the fair value of these guarantees and accordingly, no liability was recorded. There are no recourse provisions to recover any amounts from third parties.

Note 9 – Fair value of financial instruments

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

(i) Cash and cash equivalents, Accounts receivable, Other current assets, Accounts payable and other:
The carrying amounts approximate fair value because of the short maturity of these instruments.

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

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

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at June 30, 2009 and December 31, 2008 for which the carrying values on the Consolidated Balance Sheet are different from their fair values:

In millions		June 30, 2009		December 31, 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
	Investments	$ 23	$ 119	$ 24	$ 127
Financial liabilities					
	Long-term debt (including current portion)	$ 7,599	$ 8,156	$ 7,911	$ 8,301

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

Note 10 – Earnings per share

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

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	2009	2008	2009	2008
Net income	$ 387	$ 459	$ 811	$ 770
Weighted-average shares outstanding	468.7	476.4	468.5	479.6
Effect of stock options	4.3	5.6	4.2	5.7
Weighted-average diluted shares outstanding	473.0	482.0	472.7	485.3
Basic earnings per share	$ 0.83	$ 0.96	$ 1.73	$ 1.61
Diluted earnings per share	$ 0.82	$ 0.95	$ 1.72	$ 1.59

The weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, was 0.4 million and 0.7 million for the three and six months ended June 30, 2009 and 0.1 million for both corresponding periods in 2008.

Note 11 – Comparative figures

Certain figures, previously reported in 2008, have been reclassified to conform with the basis of presentation adopted in 2009.

CANADIAN NATIONAL RAILWAY COMPANY
SELECTED RAILROAD STATISTICS (1) (U.S. GAAP)

	Three months ended June 30			Six months ended June 30	
	2009	2008		2009	2008
			(Unaudited)		
Statistical operating data					
Rail freight revenues ($ millions)	1,601	1,876		3,297	3,636
Gross ton miles (GTM) (millions)	74,556	87,287		148,113	171,614
Revenue ton miles (RTM) (millions)	38,865	45,264		77,556	90,223
Carloads (thousands)	928	1,188		1,882	2,320
Route miles (includes Canada and the U.S.)	21,104	20,421		21,104	20,421
Employees (end of period)	21,717	23,147		21,717	23,147
Employees (average for the period)	21,827	22,953		22,043	22,795
Productivity					
Operating ratio (%)	67.3	66.3		70.8	69.4
Rail freight revenue per RTM (cents)	4.12	4.14		4.25	4.03
Rail freight revenue per carload ($)	1,725	1,579		1,752	1,567
Operating expenses per GTM (cents)	1.61	1.59		1.74	1.63
Labor and fringe benefits expense per GTM (cents)	0.55	0.45		0.59	0.50
GTMs per average number of employees (thousands)	3,416	3,803		6,719	7,529
Diesel fuel consumed (U.S. gallons in millions)	80	96		165	195
Average fuel price ($/U.S. gallon)	2.00	3.82		1.99	3.41
GTMs per U.S. gallon of fuel consumed	932	909		898	880
Safety indicators					
Injury frequency rate per 200,000 person hours (2)	1.68	1.16		1.48	1.64
Accident rate per million train miles (2)	1.71	2.68		1.92	2.67
Financial ratio					
Debt to total capitalization ratio (% at end of period)	40.6	39.0		40.6	39.0

(1) Includes data relating to companies acquired as of the date of acquisition.
(2) Based on Federal Railroad Administration (FRA) reporting criteria.

Certain statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

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

	Three months ended June 30				Six months ended June 30		
	2009	2008	Variance Fav (Unfav)		2009	2008	Variance Fav (Unfav)
				(Unaudited)			
Revenues (millions of dollars)							
Petroleum and chemicals	309	322	(4%)		649	641	1%
Metals and minerals	158	239	(34%)		356	444	(20%)
Forest products	283	357	(21%)		585	687	(15%)
Coal	111	107	4%		214	206	4%
Grain and fertilizers	330	334	(1%)		687	674	2%
Intermodal	318	393	(19%)		637	744	(14%)
Automotive	92	124	(26%)		169	240	(30%)
Total rail freight revenue	1,601	1,876	(15%)		3,297	3,636	(9%)
Other revenues	180	222	(19%)		343	389	(12%)
Total revenues	1,781	2,098	(15%)		3,640	4,025	(10%)
Revenue ton miles (millions)							
Petroleum and chemicals	7,114	7,970	(11%)		14,641	16,396	(11%)
Metals and minerals	2,813	4,740	(41%)		6,065	8,831	(31%)
Forest products	6,782	8,826	(23%)		13,396	17,284	(22%)
Coal	3,445	3,638	(5%)		6,286	7,030	(11%)
Grain and fertilizers	10,049	10,707	(6%)		20,607	22,536	(9%)
Intermodal	8,108	8,666	(6%)		15,584	16,755	(7%)
Automotive	554	717	(23%)		977	1,391	(30%)
	38,865	45,264	(14%)		77,556	90,223	(14%)
Rail freight revenue / RTM (cents)							
Total rail freight revenue per RTM	4.12	4.14	-		4.25	4.03	5%
Commodity groups:							
Petroleum and chemicals	4.34	4.04	7%		4.43	3.91	13%
Metals and minerals	5.62	5.04	12%		5.87	5.03	17%
Forest products	4.17	4.04	3%		4.37	3.97	10%
Coal	3.22	2.94	10%		3.40	2.93	16%
Grain and fertilizers	3.28	3.12	5%		3.33	2.99	11%
Intermodal	3.92	4.53	(13%)		4.09	4.44	(8%)
Automotive	16.61	17.29	(4%)		17.30	17.25	-
Carloads (thousands)							
Petroleum and chemicals	125	140	(11%)		253	285	(11%)
Metals and minerals	128	272	(53%)		308	510	(40%)
Forest products	100	136	(26%)		200	263	(24%)
Coal	107	90	19%		197	177	11%
Grain and fertilizers	130	148	(12%)		262	299	(12%)

Intermodal	300	348	(14%)	592	675	(12%)
Automotive	38	54	(30%)	70	111	(37%)
	928	1,188	(22%)	1,882	2,320	(19%)
Rail freight revenue / carload (dollars)						
Total rail freight revenue per carload	1,725	1,579	9%	1,752	1,567	12%
Commodity groups:						
Petroleum and chemicals	2,472	2,300	7%	2,565	2,249	14%
Metals and minerals	1,234	879	40%	1,156	871	33%
Forest products	2,830	2,625	8%	2,925	2,612	12%
Coal	1,037	1,189	(13%)	1,086	1,164	(7%)
Grain and fertilizers	2,538	2,257	12%	2,622	2,254	16%
Intermodal	1,060	1,129	(6%)	1,076	1,102	(2%)
Automotive	2,421	2,296	5%	2,414	2,162	12%

Such statistical data and related productivity measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES - unaudited

Adjusted performance measures

During the three and six months ended June 30, 2009, the Company reported adjusted net income of $361 million, or $0.76 per diluted share and $663 million, or $1.40 per diluted share, respectively. The adjusted figures for the three months ended June 30, 2009 exclude a deferred income tax recovery of $28 million ($0.06 per diluted share), of which $12 million ($0.03 per diluted share) resulted from the enactment of a lower provincial corporate income tax rate and $16 million ($0.03 per diluted share) resulted from the recapitalization of a foreign investment, as well as the impact of EJ&E acquisition-related costs of $3 million or $2 million after tax. The adjusted figures for the six months ended June 30, 2009 exclude the gain on sale of the Weston subdivision of $157 million or $135 million after-tax ($0.29 per diluted share), EJ&E acquisition-related costs of $49 million or $30 million after-tax ($0.06 per diluted share) and a deferred income tax recovery of $43 million ($0.09 per diluted share), of which $27 million ($0.06 per diluted share) resulted from the enactment of lower provincial corporate income tax rates and $16 million ($0.03 per diluted share) resulted from the recapitalization of a foreign investment.
During the three and six months ended June 30, 2008, the Company reported adjusted net income of $436 million, or $0.90 per diluted share and $736 million, or $1.52 per diluted share, respectively. These adjusted figures exclude a deferred income tax recovery of $23 million ($0.05 per diluted share) for both the three- and six-month periods that resulted from the enactment of lower provincial corporate income tax rates. Also excluded from adjusted net income for the six-month period was a deferred income tax recovery of $11 million ($0.02 per diluted share) due to net capital losses arising from the reorganization of a subsidiary.
Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company’s 2009 unaudited interim Consolidated Financial Statements and Notes thereto. The following tables provide a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2009 and 2008, to the adjusted performance measures presented herein.

	Three months ended June 30, 2009			Six months ended June 30, 2009		
In millions, except per share data	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	$ 1,781	$ -	$ 1,781	$ 3,640	$ -	$ 3,640
Operating expenses	1,198	(3)	1,195	2,576	(49)	2,527
Operating income	583	3	586	1,064	49	1,113
Interest expense	(108)	-	(108)	(220)	-	(220)
Other income	9	-	9	170	(157)	13
Income before income taxes	484	3	487	1,014	(108)	906
Income tax expense	(97)	(29)	(126)	(203)	(40)	(243)
Net income	$ 387	$ (26)	$ 361	$ 811	$ (148)	$ 663
Operating Ratio	67.3%		67.1%	70.8%		69.4%

Basic earnings per share	$	0.83	$	(0.06)	$	0.77	$	1.73	$	(0.32)	$	1.41
Diluted earnings per share	$	0.82	$	(0.06)	$	0.76	$	1.72	$	(0.32)	$	1.40

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CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES - unaudited

	Three months ended June 30, 2008			Six months ended June 30, 2008		
In millions, except per share data	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	$ 2,098	$ -	$ 2,098	$ 4,025	$ -	$ 4,025
Operating expenses	1,391	-	1,391	2,795	-	2,795
Operating income	707	-	707	1,230	-	1,230
Interest expense	(87)	-	(87)	(173)	-	(173)
Other income	9	-	9	3	-	3
Income before income taxes	629	-	629	1,060	-	1,060
Income tax expense	(170)	(23)	(193)	(290)	(34)	(324)
Net income	$ 459	$ (23)	$ 436	$ 770	$ (34)	$ 736
Operating Ratio	66.3%		66.3%	69.4%		69.4%
Basic earnings per share	$ 0.96	$ (0.05)	$ 0.91	$ 1.61	$ (0.07)	$ 1.54
Diluted earnings per share	$ 0.95	$ (0.05)	$ 0.90	$ 1.59	$ (0.07)	$ 1.52

Free cash flow

The Company generated $256 million and $463 million of free cash flow for the three and six months ended June 30, 2009, compared to $164 million and $225 million for the same periods in 2008. 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, adjusted for changes in the accounts receivable securitization program and in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities, adjusted for the impact of major acquisitions, and the payment of dividends, calculated as follows:

	Three months ended June 30		Six months ended June 30	
In millions	2009	2008	2009	2008
Cash provided from operating activities	$ 632	$ 409	$ 950	$ 574
Cash used by investing activities	(236)	(343)	(682)	(509)
Cash provided before financing activities	396	66	268	65
Adjustments:				
Change in accounts receivable securitization	-	209	68	372
Dividends paid	(118)	(109)	(236)	(220)
Acquisition of EJ&E	-	-	373	-
Effect of foreign exchange fluctuations on U.S. dollar-denominated				

cash and cash equivalents	(22)	(2)	(10)	8
Free cash flow	$ 256	$ 164	$ 463	$ 225

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

Item 3

Management's discussion and analysis (MD&A) relates to the financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or "the Company." Canadian National Railway Company'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 position 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 2009 unaudited Interim Consolidated financial Statements and Notes thereto as well as the 2008 Annual MD&A.

Business profile

CN is engaged in the rail and related transportation business. CN's network of approximately 21,100 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network, and its co-production arrangements, routing protocols, marketing alliances, and interline agreements, provide CN customers access to all three North American Free Trade Agreement (NAFTA) nations.
CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. In 2008, no individual commodity group accounted for more than 19% of revenues. From a geographic standpoint, 19% of revenues came from United States (U.S.) domestic traffic, 31% from transborder traffic, 24% from Canadian domestic traffic and 26% from overseas traffic. The Company is the originating carrier for approximately 86% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Corporate organization

The Company manages its rail operations in Canada and the United States as one business segment. Financial information reported at this level, such as revenues, operating income and cash flow from operations, is used by the Company's corporate management in evaluating financial and operational performance and allocating resources across CN's network. The Company's strategic initiatives, which drive its operational direction, are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region), whose role is to manage the day-to-day service requirements of their respective territories, control direct costs incurred locally, and execute the corporate strategy and operating plan established by corporate management.
See Note 15 – Segmented information, to the Company's 2008 Annual Consolidated Financial Statements for additional information on the Company's corporate organization, as well as selected financial information by geographic area.

Strategy overview

CN's focus is on running a safe and efficient railroad. While remaining at the forefront of the rail industry, CN's goal is to be internationally regarded as one of the best-performing transportation companies.

CN's commitment is to create value for both its customers and shareholders. By providing quality and cost-effective service, CN seeks to create value for its customers. By striving for sustainable financial performance through profitable growth, solid free cash flow and a high return on investment, CN seeks to deliver increased shareholder value.

CN has a unique business model, which is anchored on five key principles: providing quality service, controlling costs, focusing on asset utilization, committing to safety, and developing people. "Precision railroading" is at the core of CN's business model. It is a highly disciplined process whereby CN handles individual rail shipments according to a specific trip plan and manages all aspects of railroad operations to meet customer commitments efficiently and profitably. Precision railroading demands discipline to execute the trip plan, the relentless measurement of results, and the use of such results to generate further execution improvements. Precision railroading increases velocity, improves reliability, lowers costs, enhances asset utilization and, ultimately, helps the Company to grow the top line. It has been a key contributor to CN's earnings growth and improved return.

Although several industries, including transportation, have been impacted by the current economic conditions, the basic driver of the business remains intact – demand for reliable, efficient, and cost effective transportation. The Company's focus during these volatile times is to continue to pursue its long-term business plan, maintain a high level of service to customers, operate safely and efficiently, and meet short- and long-term financial commitments.

With the North American economy in a deep recession and the global economy contracting in 2009, most of the Company's commodity groups have been significantly impacted, including forest products, automotive, petroleum and chemicals, metals and minerals and intermodal. The Company has been making necessary changes to its operations to reflect the reduced volumes and has imposed certain cost-reduction measures.

To meet its long-term business plan objectives, the Company continues to focus on top-line growth by maintaining its pricing strategy and focusing on opportunities that extend beyond the business cycle, such as market share gains versus truck, commodities related to oil and gas development in western Canada, the Prince Rupert Intermodal Terminal, opportunities in the bulk sector, such as Illinois basin coal, and the expansion of its non-rail services.

To operate efficiently and safely while maintaining a high level of customer service, the Company will continue to leverage its unique North American franchise consisting of its rail network, unique network of ports and efficient international trade gateways and non-rail service offerings; and its superior business model. The Company plans to continue to invest in capital programs to maintain a safe railway and pursue strategic initiatives to leverage and/or expand its franchise. The Company continuously seeks productivity initiatives to reduce costs and leverage its assets. Opportunities to improve productivity extend across all functions in the organization. Train productivity is being improved through the use of locomotives equipped with "distributed power," which allows the Company to run longer, heavier trains, including in cold weather conditions, while improving train handling, reducing train separations and ensuring the overall safety of operations. This initiative, combined with CN's investments in longer sidings, can offer train-mile savings, allow for long-train operations and, reduce wear on rail and wheels. Yard throughput is being improved through SmartYard, an innovative use of real-time traffic information to sequence cars effectively and get them out on the line more quickly in the face of constantly changing conditions. In Engineering, the Company is continuously working to increase the productivity of its field forces, through better use of traffic information and the optimization of work scheduling, and as a result, better management of its engineering forces on the track. The Company also intends to maintain a solid focus on reducing accidents and related costs, as well as costs for legal claims and health care.

CN's capital programs support the Company's commitment to the five key principles and its ability to grow the business profitably. In 2009, CN plans to invest approximately $1.5 billion on capital programs, of which close to $1 billion is targeted towards track infrastructure to continue to operate a safe railway and to improve the productivity and fluidity of the network, and includes the replacement of rail, ties, and other track materials and bridge improvements, as well as rail-line improvements for its recently acquired Elgin, Joliet & Eastern Railway Company (EJ&E) property. This amount also includes funds for strategic initiatives and additional enhancements to the track infrastructure in western Canada. CN's equipment spending, targeted to reach approximately $200 million in 2009, is intended to improve the quality of the fleet to meet customer requirements. CN also expects to spend approximately $300 million on facilities to grow the business, including transloads and distribution centers; on information technology to improve service and operating efficiency; and on other projects to increase productivity.

The Company also invests in various strategic initiatives to expand the scope of its business. A key initiative was the recent acquisition of the EJ&E lines, which will drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion. Other initiatives include the acquisition of short-lines in Quebec and Alberta; the development of CN WorldWide International, the Company's international freight-forwarding subsidiary; and the formation of CN WorldWide North America, to manage and expand the scope and scale of the Company's existing non-rail capabilities such as warehousing and distribution, bulk management operations, trucking and transportation management services across North America.

To meet short- and long-term financial commitments, the Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet, by monitoring its adjusted debt-to-total capitalization and adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) ratios, and preserving a strong credit rating to be able to maintain access to public financing. The Company's principal source of liquidity is cash generated from operations, which can be supplemented by its commercial paper program and its accounts receivable securitization program, to meet short-term liquidity needs. The Company's primary uses of funds are for working capital requirements, including income tax installments as they become due and pension contributions, contractual obligations, capital expenditures relating to track infrastructure and other, acquisitions, dividend payouts, and the repurchase of shares through the share buyback program, when applicable. The Company sets priorities on its uses of available funds based on short-term operational requirements, expenditures to continue to operate a safe railway and strategic initiatives, while also considering its long-term contractual obligations and returning value to its shareholders.

The Company's commitment to safety is reflected in the wide range of initiatives that CN is pursuing and in the size of its capital programs. Comprehensive plans are in place to address safety, security, employee well-being and environmental management. CN's Integrated Safety Plan is the framework for putting safety at the center of its day-to-day operations. This proactive plan, which is fully supported by senior management, is designed to minimize risk and drive continuous improvement in the reduction of injuries and accidents, and engages employees at all levels of the organization.

Environmental protection is also an integral part of CN's day-to-day activities. A combination of key resource people, training, policies, monitoring and environmental assessments helps to ensure that the Company's operations comply with CN's Environmental Policy, a copy of which is available on CN's website.

CN's ability to develop the best railroaders in the industry has been a key contributor to the Company's success. CN recognizes that without the right people – no matter how good a service plan or business model a company may have – it will not be able to fully execute. The Company is focused on recruiting the right people, developing employees with the right skills, motivating them to do the right thing, and training them to be the future leaders of the Company.

The forward-looking statements provided in the above section and in other parts of this MD&A are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed or implied in such statements and are based on certain factors and assumptions which the Company considers reasonable, about events, developments, prospects and opportunities that may not materialize or that may be offset entirely or partially by other events and developments. See the sections of this MD&A entitled Forward-looking statements and Business risks for assumptions and risk factors affecting such forward-looking statements.

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

Financial and statistical highlights

$ in millions, except per share data, or unless otherwise indicated	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
		(Unaudited)		
Financial results				
Revenues	$ 1,781	$ 2,098	$ 3,640	$ 4,025
Operating income (a)	$ 583	$ 707	$ 1,064	$ 1,230
Net income (a) (b)	$ 387	$ 459	$ 811	$ 770
Operating ratio (a)	67.3%	66.3%	70.8%	69.4%
Basic earnings per share (a) (b)	$ 0.83	$ 0.96	$ 1.73	$ 1.61
Diluted earnings per share (a) (b)	$ 0.82	$ 0.95	$ 1.72	$ 1.59
Dividend declared per share	$ 0.2525	$ 0.2300	$ 0.5050	$ 0.4600
Financial position				
Total assets	$ 26,737	$ 24,353	$ 26,737	$ 24,353
Total long-term financial liabilities	$ 13,855	$ 12,870	$ 13,855	$ 12,870
Statistical operating data and productivity measures (c)				
Employees (average for the period)	21,827	22,953	22,043	22,795
Gross ton miles (GTM) per average number of employees (thousands)	3,416	3,803	6,719	7,529
GTMs per U.S. gallon of fuel consumed	932	909	898	880

(a) The figures for the three and six months ended June 30, 2009 include $3 million or $2 million after-tax and $49 million or $30 million after-tax ($0.06 per basic or diluted share), respectively, for EJ&E acquisition-related costs.

(b) The figures for the three and six months ended June 30, 2009 include a deferred income tax recovery of $28 million of which $12 million ($0.03 per basic or diluted share) resulted from an income tax rate enactment and $16 million ($0.03 per basic or diluted share) from the recapitalization of a foreign investment. The figures for the six months ended June 30, 2009 also include a gain on sale of the Company's Weston subdivision of $157 million or $135 million after-tax ($0.29 per basic or diluted share) and a deferred income tax recovery of $15 million ($0.03 per basic or diluted share) resulting from an income tax rate enactment. The figures for the three and six months ended June 30, 2008 include a deferred income tax recovery of $23 million ($0.05 per basic or diluted share) and $34 million ($0.07 per basic or diluted share), respectively. Of the $34 million, $23 million resulted from income tax rate enactments and $11 million ($0.02 per basic or diluted share) from net capital losses arising from the reorganization of a subsidiary.

(c)

Based on estimated data available at such time and subject to change as more complete information becomes available.

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

Financial results

Second quarter and first half of 2009 compared to corresponding periods in 2008

Second quarter 2009 net income was $387 million, a decrease of $72 million, when compared to the same period in 2008, with diluted earnings per share decreasing 14% to $0.82. Net income for the six months ended June 30, 2009 was $811 million, an increase of $41 million, or 5%, when compared to the same period in 2008, with diluted earnings per share rising 8% to $1.72.

The Company's results of operations, particularly in 2009, were affected by significant weakness across markets due to prevailing economic conditions, while 2008 was also marked by severe weather conditions in the first quarter. The 2009 and 2008 figures include items affecting the comparability of the results of operations. Included in the results for second-quarter 2009 was a deferred income tax recovery of $28 million ($0.06 per basic or diluted share), of which $12 million ($0.03 per basic or diluted share) resulted from the enactment of a lower provincial corporate income tax rate and $16 million ($0.03 per basic or diluted share) resulted from the recapitalization of a foreign investment, as well as EJ&E acquisition-related costs of $3 million or $2 million after-tax. Included in the results for the six months ended June 30, 2009 was the gain on sale of the Weston subdivision of $157 million or $135 million after-tax ($0.29 per basic or diluted share), EJ&E acquisition-related costs of $49 million or $30 million after-tax ($0.06 per basic or diluted share) and a deferred income tax recovery of $43 million ($0.09 per basic or diluted share), of which $27 million ($0.06 per basic or diluted share) resulted from the enactment of lower provincial corporate income tax rates and $16 million ($0.03 per basic or diluted share) resulted from the recapitalization of a foreign investment.

Included in the results for second-quarter and first half 2008 was a deferred income tax recovery of $23 million ($0.05 per basic or diluted share), resulting from the enactment of lower provincial corporate income tax rates. Also included in the results for the first half of 2008 was a deferred income tax recovery of $11 million ($0.02 per basic or diluted share) resulting from net capital losses arising from the reorganization of a subsidiary.

Foreign exchange fluctuations have also had an impact on the comparability of the results of operations. The fluctuation of the Canadian dollar relative to the U.S. dollar, which affects the conversion of the Company's U.S. dollar-denominated revenues and expenses, has resulted in an increase of approximately $15 million ($0.03 per basic or diluted share) to net income in the second quarter of 2009 and approximately $45 million ($0.10 per basic or diluted share) in the first six months of 2009.

Revenues for the second quarter of 2009 decreased by $317 million, or 15%, to $1,781 million when compared to the same period in 2008. Revenues for the first half of 2009 decreased by $385 million, or 10%, to $3,640 million. The reduction in revenues was mainly due to significantly lower volumes in almost all markets as a result of prevailing economic conditions in the North American and global economies; and a lower fuel surcharge due to year-over-year decreases in applicable fuel prices as well as lower volumes. Partly offsetting these factors were the positive translation impact of the weaker Canadian dollar on U.S. dollar-denominated revenues, freight rate increases and a positive change in traffic mix.

Operating expenses for the three months ended June 30, 2009 decreased by $193 million, or 14%, to $1,198 million. Operating expenses for the six-months ended June 30, 2009 decreased by $219 million, or 8%, to $2,576 million. The decrease in expenses was primarily due to lower fuel costs and reduced expenses for purchased services and material and labor, partly reflecting the impact of reduced freight volumes as well as management's cost-reduction initiatives. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S. dollar-denominated expenses and higher casualty and other expense mainly due to EJ&E acquisition-related costs in the first quarter of 2009.

The operating ratio, defined as operating expenses as a percentage of revenues, was 67.3% in the current quarter compared to 66.3% in the second quarter of 2008, a 1.0-point increase. The six-month operating ratio was 70.8% in

2009, compared to 69.4% in 2008, a 1.4-point increase.

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

Revenues

	Three months ended June 30			Six months ended June 30		
In millions, unless otherwise indicated	2009	2008	% Change	2009	2008	% Change
			(Unaudited)			
Rail freight revenues	$ 1,601	$ 1,876	(15%)	$ 3,297	$ 3,636	(9%)
Other revenues	180	222	(19%)	343	389	(12%)
Total revenues	$ 1,781	$ 2,098	(15%)	$ 3,640	$ 4,025	(10%)
Rail freight revenues:						
Petroleum and chemicals	$ 309	$ 322	(4%)	$ 649	$ 641	1%
Metals and minerals	158	239	(34%)	356	444	(20%)
Forest products	283	357	(21%)	585	687	(15%)
Coal	111	107	4%	214	206	4%
Grain and fertilizers	330	334	(1%)	687	674	2%
Intermodal	318	393	(19%)	637	744	(14%)
Automotive	92	124	(26%)	169	240	(30%)
Total rail freight revenues	$ 1,601	$ 1,876	(15%)	$ 3,297	$ 3,636	(9%)
Revenue ton miles (RTM) (millions)	38,865	45,264	(14%)	77,556	90,223	(14%)
Rail freight revenue/RTM (cents)	4.12	4.14	-	4.25	4.03	5%

Revenues for the quarter ended June 30, 2009 totaled $1,781 million compared to $2,098 million for the same period in 2008, a decrease of $317 million, or 15%. Revenues for the first half of 2009 were $3,640 million, a decrease of $385 million, or 10%, when compared to the same period in 2008. The decreases in both the second quarter and first half of 2009 were mainly due to significantly lower volumes in almost all markets as a result of prevailing economic conditions in the North American and global economies; and a lower fuel surcharge in the range of $200 million for the second quarter and $350 million for the first six months of the year due to year-over-year decreases in applicable fuel prices, as well as lower volumes. These factors were partly offset by the positive translation impact of the weaker Canadian dollar on U.S. dollar-denominated revenues representing a benefit of approximately $125 million for the second quarter and $320 million for the first half of 2009, freight rate increases and a positive change in traffic mix.
Revenue ton miles (RTM), measuring the relative weight and distance of rail freight transported by the Company, declined by 14% for both the second quarter and first half of 2009, when compared to the same periods in 2008. Rail freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, was flat in the second quarter and increased by 5% in the first half of 2009, when compared to the same periods in 2008, mainly due to the positive translation impact of the weaker Canadian dollar and freight rate increases that were entirely offset in the second quarter and partly offset in the first half of the year by the impact of a lower fuel surcharge and an increase in the average length of haul.

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

Petroleum and chemicals

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 309	$ 322	(4%)	$ 649	$ 641	1%
RTMs (millions)	7,114	7,970	(11%)	14,641	16,396	(11%)
Revenue/RTM (cents)	4.34	4.04	7%	4.43	3.91	13%

Petroleum and chemicals comprises a wide range of commodities, including chemicals, sulfur, plastics, petroleum products and liquefied petroleum gas (LPG) products. The primary markets for these commodities are within North America, and 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 world scale petrochemicals and plastics; and in eastern Canadian regional plants. These shipments are destined for customers in Canada, the United States and overseas. Revenues for this commodity group decreased by $13 million, or 4%, for the second quarter and increased by $8 million, or 1%, for the first six months of 2009 when compared to the same periods in 2008. The decrease in the second quarter was mainly due to the impact of a lower fuel surcharge, reduced volumes for chemical products due to weakness in industrial production, and reduced sulphur shipments. These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases. The increase in the six-month period was mainly due to the positive translation impact of the weaker Canadian dollar, freight rate increases, and an increase in condensate volumes, particularly in the first three months of the year. These factors were partly offset by the impact of a lower fuel surcharge, reduced chemicals volumes, and lower sulphur shipments. Revenue per revenue ton mile increased by 7% for the second quarter and 13% for the first half of 2009, mainly due to the positive translation impact of the weaker Canadian dollar and freight rate increases that were partly offset by the impact of a lower fuel surcharge.

Metals and minerals

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 158	$ 239	(34%)	$ 356	$ 444	(20%)
RTMs (millions)	2,813	4,740	(41%)	6,065	8,831	(31%)
Revenue/RTM (cents)	5.62	5.04	12%	5.87	5.03	17%

The metals and minerals commodity group consists primarily of nonferrous base metals, concentrates, iron ore, steel, construction materials, machinery and dimensional (large) loads. The Company provides unique rail access to aluminum, mining, steel and iron ore producing regions, which are among the most important in North America. This access, coupled with the Company's transload and port facilities, has made CN a leader in the transportation of copper, lead, zinc, concentrates, iron ore, refined metals and aluminum. Mining, oil and gas development and non-residential construction are the key drivers for metals and minerals. Revenues for this commodity group decreased by $81 million, or 34%, for the second quarter and $88 million, or 20%, for the first six months of 2009 when compared to the same periods in 2008. The decreases in both the second quarter and first half of 2009 were mainly due to weakness in the steel industry, which reduced shipments of steel products and iron ore, and the impact of a lower fuel surcharge.

These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases. Revenue per revenue ton mile increased by 12% for the second quarter and 17% for the first half of 2009, mainly due to the positive translation impact of the weaker Canadian dollar and freight rate increases that were partly offset by the impact of a lower fuel surcharge and a significant increase in the average length of haul.

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

Forest products

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 283	$ 357	(21%)	$ 585	$ 687	(15%)
RTMs (millions)	6,782	8,826	(23%)	13,396	17,284	(22%)
Revenue/RTM (cents)	4.17	4.04	3%	4.37	3.97	10%

The forest products commodity group includes various types of lumber, panels, paper, wood pulp and other fibers such as logs, recycled paper and wood chips. 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 connections to other Class I railroads. The key drivers for the various commodities are: for newsprint, advertising lineage, non-print media and overall economic conditions, primarily in the United States; for fibers (mainly wood pulp), the consumption of paper in North American and offshore markets; and for lumber and panels, housing starts and renovation activities in the United States. Revenues for this commodity group decreased by $74 million, or 21%, for the second quarter and $102 million, or 15%, for the first six months of 2009 when compared to the same periods in 2008. The decreases in the second quarter and first half of 2009 were mainly due to lower volumes from overall weak demand that resulted in several customer mill closures and production curtailments, and the impact of a lower fuel surcharge. These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases. Revenue per revenue ton mile increased by 3% for the second quarter and 10% for the first half of 2009, mainly due to the positive translation impact of the weaker Canadian dollar and freight rate increases that were partly offset by the impact of a lower fuel surcharge.

Coal

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 111	$ 107	4%	$ 214	$ 206	4%
RTMs (millions)	3,445	3,638	(5%)	6,286	7,030	(11%)
Revenue/RTM (cents)	3.22	2.94	10%	3.40	2.93	16%

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 via terminals on the west coast of Canada to steel producers. Revenues for this commodity group increased by $4 million, or 4%, for the second quarter and $8 million, or 4%, for the first six months of 2009 when compared to the same periods in 2008. The increases in both the second quarter and first half of 2009 were mainly due to the positive translation impact of the weaker Canadian dollar, freight rate increases, and higher shipments of U.S. coal related to both the acquisition of the EJ&E and a new mine operation that began in early 2008. These factors were partly offset by the impact of a lower fuel surcharge, and reduced shipments of metallurgical coal from Canadian mines. Revenue per revenue ton mile increased by 10% for the second quarter and 16% for the first half of 2009, mainly due to the positive translation impact of the weaker Canadian dollar, freight rate increases, and a significant decrease in the average length of haul that were partly offset by the impact of a lower fuel surcharge.

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Grain and fertilizers

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 330	$ 334	(1%)	$ 687	$ 674	2%
RTMs (millions)	10,049	10,707	(6%)	20,607	22,536	(9%)
Revenue/RTM (cents)	3.28	3.12	5%	3.33	2.99	11%

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 segments: food grains (mainly wheat, oats and malting barley), feed grains (including feed barley, feed wheat, and corn), and oilseeds and oilseed products (primarily canola seed, oil and meal, and soybeans). Production of grain varies considerably from year to year, affected primarily by weather conditions, seeded and harvested acreage, the mix of grains produced and crop yields. Grain exports are sensitive to the size and quality of the crop produced, international market conditions and foreign government policy. The majority of grain produced in western Canada and moved by CN is exported via the ports of Vancouver, Prince Rupert and Thunder Bay. Certain of these rail movements are subject to government regulation and to a revenue cap, which effectively establishes a maximum revenue entitlement that railways can earn. 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 $4 million, or 1%, for the second quarter and increased by $13 million, or 2%, for the first six months of 2009 when compared to the same periods in 2008. The decrease in the second quarter of 2009 was mainly due to the impact of a lower fuel surcharge, reduced shipments of potash in North America, and weak corn exports in the U.S. These factors were partly offset by increased export wheat and canola volumes through western Canadian ports, the positive translation impact of the weaker Canadian dollar and freight rate increases. The increase in the first half of 2009 was mainly due to the positive translation impact of the weaker Canadian dollar, increased export wheat and canola volumes through western Canadian ports, and freight rate increases. These factors were partly offset by reduced shipments of potash in North America, the impact of a lower fuel surcharge, reduced U.S. soybean shipments, including meal and oil, and a decline in U.S. export corn volumes. Revenue per revenue ton mile increased by 5% in the second quarter and 11% in the first half of 2009, mainly due to the positive translation impact of the weaker Canadian dollar and freight rate increases that were partly offset by the impact of a lower fuel surcharge and an increase in the average length of haul.

Intermodal

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 318	$ 393	(19%)	$ 637	$ 744	(14%)
RTMs (millions)	8,108	8,666	(6%)	15,584	16,755	(7%)
Revenue/RTM (cents)	3.92	4.53	(13%)	4.09	4.44	(8%)

The intermodal commodity group is comprised of two segments: domestic and international. The domestic segment transports consumer products and manufactured goods, operating through both retail and wholesale channels, within domestic Canada, domestic U.S., Mexico and transborder, while the international segment handles import and export container traffic, directly serving the major ports of Vancouver, Prince Rupert, 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 decreased by $75 million, or 19%, in the second quarter and $107 million, or 14%, in the first six months of 2009 when compared to the same periods in 2008. The decreases in the second quarter and first half of 2009 were mainly due to the impact of a lower fuel surcharge, lower volumes through the port of Vancouver, and reduced domestic wholesale traffic. These factors were partly offset by higher volumes through the Port of Prince Rupert, freight rate increases, and the positive translation impact of the weaker Canadian dollar. Revenue per revenue ton mile decreased by 13% in the second quarter and 8% in the first half of 2009, mainly due to the impact of a lower fuel surcharge that was partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases.

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

Automotive

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenues (millions)	$ 92	$ 124	(26%)	$ 169	$ 240	(30%)
RTMs (millions)	554	717	(23%)	977	1,391	(30%)
Revenue/RTM (cents)	16.61	17.29	(4%)	17.30	17.25	-

The automotive commodity group moves both finished vehicles and parts throughout North America, providing rail access to all vehicle assembly plants in Canada and certain assembly plants in Michigan and in Mississippi. The Company also serves vehicle distribution facilities in Canada and the U.S., as well as parts production facilities in Michigan and Ontario. CN's broad coverage enables it to consolidate full trainloads of automotive traffic for delivery to connecting railroads at key interchange points. The Company 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 $32 million, or 26%, in the second quarter and $71 million, or 30%, in the first six months of 2009 when compared to the same periods in 2008. The decreases in the second quarter and first half of 2009 were mainly due to significantly lower volumes of finished vehicles, the impact of a lower fuel surcharge, and reduced shipments of parts traffic. These factors were partly offset by the 2008 labor-related temporary curtailment in the operations of a CN-served customer, the positive translation impact of the weaker Canadian dollar, and freight rate increases. Revenue per revenue ton mile decreased by 4% in the second quarter and was flat in the first half of 2009, mainly due to the impact of a lower fuel surcharge and a significant increase in the average length of haul that were partly offset in the second quarter and entirely offset in the first half of the year by the positive translation impact of the weaker Canadian dollar and freight rate increases.

Other revenues
Other revenues include revenues from non-rail transportation services, interswitching, and maritime operations. Other revenues decreased by $42 million, or 19%, in the second quarter and $46 million, or 12%, in the first six months of 2009 when compared to the same periods in 2008, mainly due to a decrease in non-rail transportation services attributable to CN WorldWide activities and reduced interswitching revenues that were partly offset by the positive translation impact of the weaker Canadian dollar.

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Operating expenses

In the second quarter of 2009, operating expenses amounted to $1,198 million, compared to $1,391 million in the same quarter of 2008. Operating expenses for the first half of 2009 were $2,576 million, compared to $2,795 million in the same period of 2008. The decreases of $193 million, or 14%, in the second quarter and $219 million, or 8%, in the first half of 2009 were mainly due to lower fuel costs and reduced expenses for purchased services and labor, partly reflecting the impact of reduced freight volumes as well as management's cost-reduction initiatives. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S. dollar-denominated expenses of approximately $90 million in the second quarter and $225 million in the first half of 2009, and higher casualty and other expense mainly due to EJ&E acquisition-related costs in the first quarter of 2009.

	Three months ended June 30					Six months ended June 30				
				Percentage of revenues					Percentage of revenues	
In millions	2009	2008	% Change	2009	2008	2009	2008	% Change	2009	2008
					(Unaudited)					
Labor and fringe benefits	$ 413	$ 392	(5%)	23.2%	18.7%	$ 867	$ 853	(2%)	23.8%	21.2%
Purchased services and material	253	283	11%	14.2%	13.5%	544	568	4%	15.0%	14.1%
Fuel	174	399	56%	9.8%	19.0%	356	709	50%	9.8%	17.6%
Depreciation and amortization	199	176	(13%)	11.2%	8.4%	402	351	(15%)	11.0%	8.7%
Equipment rents	70	60	(17%)	3.9%	2.8%	152	124	(23%)	4.2%	3.1%
Casualty and other	89	81	(10%)	5.0%	3.9%	255	190	(34%)	7.0%	4.7%
Total operating expenses	$ 1,198	$ 1,391	14%	67.3%	66.3%	$ 2,576	$ 2,795	8%	70.8%	69.4%

Labor and fringe benefits: Labor and fringe benefits expense includes wages, payroll taxes, and employee benefits such as incentive compensation, stock-based compensation, health and welfare, and pensions and other postretirement benefits. Certain incentive and stock-based compensation plans are based on financial and market performance targets and the related expense is recorded in relation to the attainment of such targets. Labor and fringe benefits expense increased by $21 million, or 5%, in the second quarter and $14 million, or 2%, in the first half of 2009 when compared to the same periods in 2008. The increases in both the three- and six-month periods were mainly due to the translation impact of the weaker Canadian dollar, higher stock-based compensation expense, particularly in the second quarter of 2009, and lower pension income. Partly offsetting these factors was the impact of a reduced workforce as well as lower labor costs as a result of the decline in freight volumes.

Purchased services and material: Purchased services and material expense 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 decreased by $30 million, or 11%, in the second quarter and $24 million, or 4%, in the first half of 2009 when compared to the same periods in 2008. The decrease in both the three- and six-month periods was mainly a result of reduced third-party non-rail transportation services, contracted services and discretionary costs, reflecting the decline in freight volumes as well as management's cost-reduction initiatives. Partly offsetting these factors was the translation impact of the weaker Canadian dollar.

Fuel: Fuel expense includes the cost of fuel consumed by locomotives, intermodal equipment and other vehicles. These expenses decreased by $225 million, or 56%, in the second quarter and $353 million, or 50%, in the first half of 2009 when compared to the same periods in 2008. The decreases in both the three- and six-month periods were primarily due to a lower average price for fuel, reduced freight volumes, and productivity improvements, which were partly offset by the translation impact of the weaker Canadian dollar.

Depreciation and amortization: Depreciation and amortization expense relates to the Company’s rail operations. These expenses increased by $23 million, or 13%, in the second quarter and $51 million, or 15%, in the first half of 2009 when compared to the same periods in 2008. The increases in both the three- and six-month periods were mainly due to the translation impact of the weaker Canadian dollar and the impact of net capital additions.

Equipment rents: Equipment rents expense 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 increased by $10 million, or 17%, in the second quarter and $28 million, or 23%, in the first half of 2009 when compared to the same periods in 2008. The increases in both the three- and six-month periods were primarily due to lower car hire income due to fewer shipments offline and the translation impact of the weaker Canadian dollar that were partly offset by reduced car hire expense from fewer foreign cars online.

Casualty and other: Casualty and other expense includes expenses for personal injuries, environmental, freight and property damage, insurance, bad debt and operating taxes, as well as travel expenses. These expenses increased by $8 million, or 10%, in the second quarter and $65 million, or 34%, in the first half of 2009 when compared to the same periods in 2008. The increases in both the three- and six-month periods were mainly due to the EJ&E acquisition-related costs of $3 million in the second quarter and $49 million for the first half of 2009; higher settlements for legal claims in 2009 as well as a 2008 reduction to the liability for U.S. personal injury claims; and the translation impact of the weaker Canadian dollar. These factors were partly offset by reduced travel-related expenses, reflecting management's cost-reduction initiatives.

Other

Interest expense: Interest expense increased by $21 million, or 24%, for the second quarter and $47 million, or 27%, for the first half of 2009 when compared to the same periods in 2008, mainly due to the impact of the weaker Canadian dollar on U.S. dollar-denominated interest expense and a higher average debt balance.

Other income: In the second quarter and first half of 2009, the Company recorded Other income of $9 million and $170 million, respectively, compared to $9 million and $3 million, respectively for the same periods in 2008. The increase of $167 million in the first half of the year was mainly due to the gain on sale of the Weston subdivision of $157 million, a net foreign exchange gain in 2009 as compared to a loss in 2008, and lower fees related to the accounts receivable securitization program.

Income tax expense: The Company recorded income tax expense of $97 million for the second quarter of 2009 compared to $170 million for the same period in 2008. For the six-month period ended June 30, 2009, income tax expense was $203 million compared to $290 million for the same period in 2008. Included in income tax expense for the first half of 2009 was a deferred income tax recovery of $43 million, of which $12 million and $15 million, recorded in the second and first quarters, respectively, resulted from the enactment of lower provincial corporate income tax rates; and $16 million recorded in the second quarter resulted from the recapitalization of a foreign investment. Included in income tax expense for the first half of 2008 was a deferred income tax recovery of $34 million, of which $23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates and $11 million, recorded in the first quarter, resulted from net capital losses arising from the reorganization of a subsidiary. The effective tax rate for the three and six months ended June 30, 2009 was 20.0% in both periods compared to 27.0% and 27.4%, respectively, for the same periods in 2008. Excluding the deferred income tax recoveries discussed herein, the effective tax rates for the second quarter and first half of 2009 were 25.8% and 24.3%, respectively, and 30.7% and 30.6%, respectively, in 2008. The year-over-year decreases in the effective tax rates were mainly due to the impact of a higher proportion of the Company's pretax income earned in lower-taxed jurisdictions. Also affecting the decrease in the effective tax rate for the six-month period was the impact of the favorable capital gains inclusion rate applied to the gain on sale of the Weston subdivision.

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Summary of quarterly financial data – unaudited

In millions, except per share data

	2009 Quarters		2008 Quarters				2007 Quarters	
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	$ 1,781	$ 1,859	$ 2,200	$ 2,257	$ 2,098	$ 1,927	$ 1,941	$ 2,023
Operating income	$ 583	$ 481	$ 820	$ 844	$ 707	$ 523	$ 736	$ 768
Net income	$ 387	$ 424	$ 573	$ 552	$ 459	$ 311	$ 833	$ 485
Basic earnings per share	$ 0.83	$ 0.91	$ 1.22	$ 1.17	$ 0.96	$ 0.64	$ 1.70	$ 0.97
Diluted earnings per share	$ 0.82	$ 0.90	$ 1.21	$ 1.16	$ 0.95	$ 0.64	$ 1.68	$ 0.96
Dividend declared per share	$0.2525	$0.2525	$0.2300	$0.2300	$0.2300	$0.2300	$0.2100	$0.2100

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace (see the Business risks section of this MD&A). Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. The continued fluctuations in the Canadian dollar relative to the U.S. dollar have also affected the conversion of the Company's U.S. dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

The Company's quarterly results included items that impacted the quarter-over-quarter comparability of the results of operations as discussed below:

In millions, except per share data

	2009 Quarters		2008 Quarters				2007 Quarters	
	Second	First	Fourth	Third	Second	First	Fourth	Third
Deferred income tax recoveries (a)	$ 28	$ 15	$ 42	$ 41	$ 23	$ 11	$ 284	$ 14
Gain on sale of Weston subdivision (after-tax) (b)	-	135	-	-	-	-	-	-
EJ&E acquisition-related costs (after-tax)(c)	(2)	(28)	-	-	-	-	-	-
Gain on sale of CSC (after-tax) (d)	-	-	-	-	-	-	64	-
Gain on sale of investment in EWS (after-tax) (e)	-	-	-	-	-	-	41	-
Impact on net income	$ 26	$ 122	$ 42	$ 41	$ 23	$ 11	$ 389	$ 14
Basic earnings per share	$ 0.06	$ 0.26	$ 0.09	$ 0.09	$ 0.05	$ 0.02	$ 0.79	$ 0.03
Diluted earnings per share	$ 0.06	$ 0.26	$ 0.09	$ 0.09	$ 0.05	$ 0.02	$ 0.78	$ 0.03

(a) Deferred income tax recoveries resulted mainly from the enactment of corporate income tax rate changes in Canada and the resolution of various income tax matters and adjustments related to tax filings of prior years.

(b) The Company sold its Weston subdivision for proceeds of $160 million. A gain on disposition of $157 million ($135 million after-tax) was recognized in Other income.

(c) The Company incurred costs to-date related to the acquisition of the EJ&E of $49 million ($30 million after-tax), which were recorded in Casualty and other expense.

(d) The Company sold its Central Station Complex (CSC) in Montreal for proceeds of $355 million before transaction costs. A gain of $92 million ($64 million after-tax) was recognized in Other income.

(e) The Company sold its 32% ownership interest in English Welsh and Scottish Railway (EWS) for cash proceeds of $114 million, resulting in a gain on disposition of the investment of $61 million ($41 million after-tax), which was recorded in Other income.

CANADIAN NATIONAL RAILWAY COMPANY
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Liquidity and capital resources

The Company's principal source of liquidity is cash generated from operations and is supplemented by borrowings in the money market and the capital market. 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.

To meet its short-term liquidity needs, the Company has a commercial paper program, which is backstopped by a portion of its U.S.$1 billion revolving credit facility, and an accounts receivable securitization program. Beginning in the latter part of the third quarter of 2008, unprecedented conditions in the financial markets led to unsettled conditions in the commercial paper and short-term lending markets. During these disruptions, the Company briefly lost access to the commercial paper market, and used its accounts receivable securitization program in lieu of new commercial paper borrowings to cover its short-term liquidity needs. Since then, the credit markets have stabilized and the Company has been able to issue commercial paper when needed. If the Company were to lose access to its commercial paper program and its accounts receivable securitization program for an extended period, the Company intends to rely on its U.S.$1 billion revolving credit facility for its short-term liquidity needs.

The Company's access to long-term funds in the debt capital markets depends on its credit rating and market conditions. While the global financial crisis has led to debt capital markets that are marked by continued volatility, the Company believes that it continues to have access to the long-term debt capital markets. During the first quarter of 2009, the Company successfully priced a debt offering at reasonable terms. However, if the Company were unable to borrow funds at acceptable rates in the debt capital markets, the Company could borrow under its revolving credit facility, raise cash by disposing of surplus properties or otherwise monetizing assets, reduce discretionary spending or take a combination of these measures to assure that it has adequate funding for its business.

Operating activities: Cash provided from operating activities for the three and six months ended June 30, 2009 was $632 million and $950 million, respectively, compared to $409 million and $574 million, respectively, for the same periods in 2008. Net cash receipts from customers and other were $3,738 million for the six months ended June 30, 2009, an increase of $104 million when compared to the same period in 2008, mainly due to a decrease in the collections reinvested in the Company's accounts receivable securitization program and higher customer collections that were partly offset by a decrease in revenues. Payments for employee services, suppliers and other expenses were $2,332 million for the six months ended June 30, 2009, a decrease of $222 million when compared to the same period in 2008, principally due to lower payments for fuel. Payments for income taxes in the first half of 2009 were $156 million, a decrease of $51 million when compared to the same period in 2008. Also consuming cash in the six-month period ending June 30, 2009 were payments for interest, workforce reductions and personal injury and other claims totaling $272 million, compared to $246 million for the same period in 2008. Pension contributions are made throughout the year but are generally lower in the first quarter due to the timing of payments. In the first half of 2009 and 2008, pension contributions were $28 million and $53 million, respectively. The 2008 payment included $22 million related to the 2007 funding year. In 2009, pension contributions are expected to be approximately $130 million (See the Business risks section of this MD&A) and income tax payments are expected to be lower than in 2008 to reflect the impact of the current economic conditions on taxable income.

At June 30, 2009 and December 31, 2008, the Company had working capital deficits of $13 million and $136 million, respectively. A working capital deficit is common in the rail industry because it is capital-intensive, and does not indicate a lack of liquidity. The Company maintains adequate resources to meet daily cash requirements, and has sufficient financial capacity including the commercial paper program, the accounts receivable securitization program and the revolving credit facility to manage its day-to-day cash requirements and current obligations. There are currently no specific requirements relating to working capital other than in the normal course of business.

Investing activities: Cash used by investing activities in the three and six months ended June 30, 2009 amounted to $236 million and $682 million, respectively, compared to $343 million and $509 million, respectively, for the comparable periods in 2008. The Company’s investing activities in the first half of 2009 included property additions of $496 million, a decrease of $33 million when compared to the same period in 2008, and $373 million for the EJ&E acquisition that was recorded in the first quarter of 2009. Investing activities in the first half of 2009 also included the cash proceeds of $150 million from the disposition of the Company’s Weston subdivision. See the Acquisition and disposal of property section of this MD&A. The following table details property additions for the three and six months ended June 30, 2009 and 2008:

CANADIAN NATIONAL RAILWAY COMPANY
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	Three months ended June 30		Six months ended June 30	
In millions	2009	2008	2009	2008
Track and roadway	$ 239	$ 297	$ 352	$ 431
Rolling stock	68	15	97	68
Buildings	10	13	21	17
Information technology	21	18	44	35
Other	11	9	22	22
Gross property additions	349	352	536	573
Less: capital leases (a)	40	-	40	44
Property additions	$ 309	$ 352	$ 496	$ 529

(a) For both the three and six months ended June 30, 2009, the Company recorded $40 million of assets acquired through equipment leases, (nil and $44 million in the three and six months ended June 30, 2008, respectively) for which an equivalent amount was recorded in debt.

On an ongoing basis, the Company invests in capital programs for the renewal of the basic plant, the acquisition of rolling stock and other investments to take advantage of growth opportunities and to improve the Company's productivity and the fluidity of its network. For 2009, the Company expects to invest approximately $1.5 billion for its capital programs, of which approximately $1 billion is targeted towards track infrastructure to continue to operate a safe railway and to improve the productivity and fluidity of the network.

Free cash flow

The Company generated $256 million and $463 million of free cash flow for the three and six months ended June 30, 2009, compared to $164 million and $225 million for the same periods in 2008. 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, adjusted for changes in the accounts receivable securitization program and in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities, adjusted for the impact of major acquisitions, and the payment of dividends, calculated as follows:

	Three months ended June 30		Six months ended June 30	
In millions	2009	2008	2009	2008
Cash provided from operating activities	$ 632	$ 409	$ 950	$ 574
Cash used by investing activities	(236)	(343)	(682)	(509)
Cash provided before financing activities	396	66	268	65
Adjustments:				
Change in accounts receivable securitization	-	209	68	372

Dividends paid	(118)	(109)	(236)	(220)
Acquisition of EJ&E	-	-	373	-
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	(22)	(2)	(10)	8
Free cash flow	$ 256	$ 164	$ 463	$ 225

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Financing activities: Cash used by financing activities for the three and six months ended June 30, 2009 totaled $292 million and $240 million, respectively, compared to $237 million and $222 million, respectively, for the same periods in 2008. In February 2009, the Company issued U.S.$550 million (Cdn$684 million) of 5.55% Notes due in 2019. The Company used the net proceeds of U.S.$540 million (Cdn$672 million) to repay a portion of its outstanding commercial paper and reduce a portion of its accounts receivable securitization program. In 2009 and 2008, issuances and repayments of long-term debt related principally to the Company's commercial paper program. In the second quarter of 2009 there were no issuances of long-term debt.

Cash received from stock options exercised during the quarters ended June 30, 2009 and 2008 was $8 million and $14 million, respectively, and the related tax benefit realized upon exercise was $5 million and $2 million, respectively. Cash received from stock options exercised during the first half of 2009 and 2008 was $10 million and $26 million, respectively, and the related tax benefit realized upon exercise was $5 million and $8 million, respectively.

In the first half of 2009, under its 25.0 million share repurchase program, the Company did not repurchase any common shares. In the second quarter and first half of 2008, the Company repurchased 6.0 million and 13.3 million common shares for $323 million (weighted-average price per share of $53.91) and $690 million (weighted-average price per share of $51.91 per share), respectively, under its previous share repurchase program.

The Company paid a quarterly dividend of $0.2525 per share amounting to $118 million for the second quarter and $236 million for the first six months of 2009, compared to $109 million and $220 million, respectively, at the rate of $0.2300 per share, for the same periods in 2008.

Credit measures

Management believes that the adjusted debt-to-total capitalization ratio is a useful credit measure that aims to show the true leverage of the Company. Similarly, adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) is another useful credit measure because it reflects the Company's ability to service its debt. The Company excludes Other income in the calculation of EBITDA. However, since these measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies and, as such, should not be considered in isolation.

Adjusted debt-to-total capitalization ratio

June 30,	2009	2008
Debt-to-total capitalization ratio (a)	40.6%	39.0%
Add: Present value of operating lease commitments plus securitization financing (b)	2.1%	3.2%
Adjusted debt-to-total capitalization ratio	42.7%	42.2%

Adjusted debt-to-adjusted EBITDA

$ in millions, unless otherwise indicated — Twelve months ended June 30,	2009	2008
Debt	$ 7,599	$ 6,474
Add: Present value of operating lease commitments plus securitization financing (b)	665	907
Adjusted debt	8,264	7,381
Operating income	2,728	2,734
Add: Depreciation and amortization	776	689

EBITDA	3,504	3,423
Add: Deemed interest on operating leases	36	40
Adjusted EBITDA	$ 3,540	$ 3,463
Adjusted debt-to-adjusted EBITDA	2.33 times	2.13 times

(a) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt divided by the sum of total debt plus total shareholders’ equity.

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

The Company has access to various financing arrangements:

Revolving credit facility
The Company has a U.S.$1 billion revolving credit facility, expiring in October 2011. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at June 30, 2009, the Company had no outstanding borrowings under its revolving credit facility (nil as at December 31, 2008) and had letters of credit drawn of $236 million ($181 million as at December 31, 2008).

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. As at June 30, 2009, the Company had total borrowings of $5 million denominated in Canadian dollars. The weighted-average interest rate on these borrowings was 1.01%. As at December 31, 2008, the Company had total borrowings of $626 million, of which $256 million was denominated in Canadian dollars and $370 million was denominated in U.S. dollars (U.S.$303 million). The weighted-average interest rate on these borrowings was 2.42%.

Shelf prospectus and registration statement
At June 30, 2009, the Company has U.S.$1.3 billion registered for offering under its currently effective shelf prospectus and registration statement, expiring in January 2010, providing for the issuance of debt securities in one or more offerings.

All forward-looking information provided in this section is subject to risks and uncertainties and is based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments. See the sections of this MD&A entitled Forward-looking statements and Business risks for a discussion of assumptions and risk factors affecting such forward-looking statements.

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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, 2009:

In millions	Total	2009	2010	2011	2012	2013	2014 & thereafter
Long-term debt obligations (a)	$ 6,343	$ 350	$ -	$ 468	$ -	$ 464	$ 5,061
Interest on long-term debt obligations	6,508	191	366	366	337	326	4,922
Capital lease obligations (b)	1,721	119	158	214	92	139	999
Operating lease obligations (c)	807	74	135	114	91	71	322
Purchase obligations (d)	797	253	258	87	60	55	84
Other long-term liabilities reflected on the balance sheet (e)	798	51	70	56	50	47	524
Total obligations	$ 16,974	$ 1,038	$ 987	$ 1,305	$ 630	$ 1,102	$ 11,912

(a) Presented net of unamortized discounts, of which $835 million relates to non-interest bearing Notes due in 2094, and excludes capital lease obligations of $1,256 million which are included in "Capital lease obligations."

(b) Includes $1,256 million of minimum lease payments and $465 million of imputed interest at rates ranging from 2.1% to 7.9%.

(c) Includes minimum rental payments for operating leases having initial non-cancelable lease terms of one year or more. The Company also has operating lease agreements for its automotive fleet with one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately $35 million and generally extend over five years.

(d) Includes commitments for railroad ties, rail, freight cars, locomotives and other equipment and services, and outstanding information technology service contracts and licenses. See the Acquisition and disposal of property section of this MD&A for commitments related to the EJ&E acquisition.

(e) Includes expected payments for workers' compensation, workforce reductions, postretirement benefits other than pensions and environmental liabilities that have been classified as contractual settlement agreements.

For 2009 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.
See the sections of this MD&A entitled Forward-looking statements and Business risks section of this MD&A for a discussion of assumptions and risk factors affecting such forward-looking statement.

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Acquisition and disposal of property

Acquisition of Elgin, Joliet and Eastern Railway Company

On January 31, 2009, the Company acquired the principal rail lines of the EJ&E for a total cash consideration of U.S.$300 million (Cdn$373 million), paid with cash on hand. The EJ&E is a short-line railway previously owned by U.S. Steel Corporation (U.S. Steel) that operates over 198 miles of track and serves steel mills, petrochemical customers, utility plants and distribution centers in Illinois and Indiana, as well as connects with all the major railroads entering Chicago. Under the terms of the acquisition agreement, the Company acquired substantially all of the railroad operations of EJ&E, except those that support the Gary Works site in northwest Indiana and the steelmaking operations of U.S. Steel. The acquisition is expected to drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area.

The Company and EJ&E had entered into the acquisition agreement on September 25, 2007, and the Company had filed an application for authorization of the transaction with the U.S. Surface Transportation Board (STB) on October 30, 2007. Following an extensive regulatory approval process, which included an Environmental Impact Statement (EIS) that resulted in conditions imposed to mitigate municipalities' concerns regarding increased rail activity expected along the EJ&E line, the STB approved the transaction on December 24, 2008. The STB also imposed a five-year monitoring and oversight condition, during which the Company is required to file with the STB monthly operational reports as well as quarterly reports on the implementation status of the STB-imposed mitigation conditions. This permits the STB to take further action if there is a material change in the facts and circumstances upon which it relied in imposing the specific mitigation conditions. Over the next few years, the Company has committed to spend approximately U.S.$100 million for railroad infrastructure improvements and over U.S.$60 million under a series of agreements with individual communities, a comprehensive voluntary mitigation program that addresses municipalities' concerns, and additional STB-imposed conditions that the Company has accepted with one exception. The Company has filed an appeal challenging the STB's condition requiring the installation of grade separations at two locations along the EJ&E at Company funding levels significantly beyond prior STB practice. Although the STB granted the Company's application to acquire control of the EJ&E, challenges have since been made by certain communities as to the sufficiency of the EIS which, if successful, could result in further consideration of the environmental impact of the transaction and mitigation conditions imposed. The Company strongly disputes the merit of these challenges, and has intervened in support of the STB's defense against them. The final outcome of such challenges, as well as the resolution of matters that could arise during the STB's five-year oversight of the transaction, 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.

The Company has accounted for the acquisition using the purchase method of accounting pursuant to Statement of Financial Accounting Standards (SFAS) No. 141 (R), "Business Combinations," which the Company adopted on January 1, 2009. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of EJ&E as of January 31, 2009, the date of acquisition. The costs incurred to-date to acquire the EJ&E of approximately $49 million were expensed and reported in Casualty and other in the Consolidated Statement of Income for the six months ended June 30, 2009 (see Note 2 - Accounting change to the Company's unaudited Interim Consolidated Financial Statements).

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The following table summarizes the consideration paid for EJ&E and the estimated fair value of the assets acquired and liabilities assumed that were recognized at the acquisition date. The Company has not finalized its valuation of such assets and liabilities. As such, the fair value is subject to change, although no material change is anticipated.

(In U.S. millions)		At January 31, 2009
Consideration		
Cash	$	300
Fair value of total consideration transferred	$	300
Recognized amounts of identifiable assets acquired and liabilities assumed		
Current assets	$	6
Other long-term assets		4
Property, plant and equipment		304
Current liabilities		(4)
Other long-term liabilities		(10)
Total identifiable net assets	$	300

The amount of revenues and net income of EJ&E included in the Company's Consolidated Statement of Income from the acquisition date to June 30, 2009, were $34 million and $7 million, respectively. The Company has not provided supplemental pro forma information relating to the pre-acquisition period as it was not considered material to the results of operations of the Company.

Disposal of Weston subdivision
In March 2009, the Company entered into an agreement with GO Transit to sell the property known as the Weston subdivision in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Rail Property"), for cash proceeds of $110 million before transaction costs, with a balance on sale of about $50 million placed in escrow on the Company's behalf and to be released in accordance with the terms of the agreement but no later than December 31, 2009. At June 30, 2009, $40 million had been released from escrow and was received by the Company. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Rail Property at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposition of $157 million ($135 million after-tax), including amounts related to the real estate as well as the retention of trackage and other rights. The Company accounted for the transaction in Other income under the full accrual method of accounting for real estate transactions.

Off balance sheet arrangements

Accounts receivable securitization program
The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest for maximum cash proceeds of $600 million in a revolving pool of freight receivables to an unrelated trust. Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the required reserve as stipulated in the agreement. The required reserve represents an amount set aside to allow for possible credit losses and

is recognized by the Company as a retained interest and recorded in Other current assets in its Consolidated Balance Sheet. The eligible freight receivables as defined in the agreement may not include delinquent or defaulted receivables, or receivables that do not meet certain obligor-specific criteria, including concentrations in excess of prescribed limits with any one customer.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold and receives no fee for such ongoing servicing responsibilities. The average servicing period is approximately one month. During the first half of 2009, proceeds from collections reinvested in the securitization program were approximately $138 million and purchases of previously transferred accounts receivable were approximately $4 million. At June 30, 2009, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is generally limited to the receivables.

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

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

The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use. In the second quarter of 2009, the Company reduced the program limit from $600 million to $400 million until the end of 2009 to reflect the anticipated reduction in the use of the program. Under the terms of the agreement, the Company may change the percentage of co-ownership interest sold at any time. 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, 2009, the Company had sold receivables that resulted in proceeds of $2 million under the accounts receivable securitization program ($71 million at December 31, 2008), and recorded the retained interest of approximately 10% of this amount (retained interest of approximately 10% recorded at December 31, 2008). The fair value of the retained interest approximated carrying value as a result of the short collection cycle and negligible credit losses.

Guarantees and indemnifications

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

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

The nature of these guarantees or indemnifications, the maximum potential amount of future payments, the carrying amount of the liability, if any, and the nature of any recourse provisions are disclosed in Note 8 – Major commitments and contingencies, to the Company's unaudited Interim Consolidated Financial Statements.

Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the plans is provided in Note 11 – Stock plans, to the Company's 2008 Annual Consolidated Financial Statements. For the three and six months ended June 30, 2009 the Company recorded total compensation expense for awards under all plans of $25 million and $40 million, respectively, and $6 million and $34 million, respectively, for the same periods in 2008. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and six months ended June 30, 2009 was $7 million and $11 million, respectively, and $3 million and $10 million, respectively, for the same periods in 2008.

Additional disclosures are provided in Note 5 – Stock plans, to the Company's unaudited Interim Consolidated Financial Statements.

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Financial instruments

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. At June 30, 2009, the Company did not have any derivative financial instruments outstanding. At June 30, 2009, Accumulated other comprehensive income (loss) included an unamortized gain of $11 million, $8 million after-tax ($11 million, $8 million after-tax at December 31, 2008) relating to treasury lock transactions settled in 2004, which are being amortized over the term of the related debt.
Additional disclosures are provided in Note 18 – Financial instruments to the Company's 2008 Annual Consolidated Financial Statements as well as Note 9 – Fair value of financial instruments to the Company's unaudited Interim Consolidated Financial Statements.

Income taxes

Rate enactments and other
In 2009, the Company recorded a deferred income tax recovery of $43 million in the Consolidated Statement of Income, of which $12 million and $15 million, recorded in the second and first quarters, respectively, resulted from the enactment of lower provincial corporate income tax rates; and $16 million recorded in the second quarter resulted from the recapitalization of a foreign investment.

In 2008, the Company recorded a deferred income tax recovery of $34 million in the Consolidated Statement of Income, of which $23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates and $11 million, recorded in the first quarter, resulted from net capital losses arising from the reorganization of a subsidiary.

Future rate enactments
The Ontario government has proposed a graduated reduction to the provincial corporate income tax rate as part of its Provincial Budget. As a result, the Company's net deferred income tax liability will be reduced by approximately $100 million when enacted into law.

Common stock

Share repurchase program
During the first half of 2009, the Company did not repurchase any common shares under its 25.0 million share repurchase program, which expired on July 20, 2009. The Company repurchased a total of 6.1 million common shares since July 28, 2008, the inception of the program, for $331 million, at a weighted-average price of $54.42 per share.

Outstanding share data
As at July 20, 2009, the Company had 469.0 million common shares and 13.6 million stock options outstanding.

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Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No.140," and SFAS No. 167, "Amendments to FASB Interpretation (FIN) No 46(R)" which are effective for fiscal years and interim periods beginning after November 15, 2009.
SFAS No. 166 removes the concept of a qualifying special purpose entity from SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" and removes the exception from applying FIN No. 46(R), "Consolidation of Variable Interest Entities" to qualifying special purpose entities. SFAS No. 166 also modifies the circumstances in which a transferor derecognizes a portion or component of a financial asset and defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale and clarifies the determination of whether a transferor has surrendered control over transferred financial assets. The standard requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement with transfers of financial assets that are accounted for as sales.
SFAS No. 167 retains the scope of FIN No. 46(R) with the addition of qualifying special purpose entities, as the concept of these entities was eliminated in SFAS No. 166. This Statement amends certain guidance in FIN No. 46(R) for determining whether an entity is a variable interest entity, requires more frequent analysis to determine whether an enterprise has a controlling financial interest in or is the primary beneficiary of a variable interest entity, and eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. The standard requires enhanced disclosures about an enterprise's involvement in a variable interest entity.
The Company is currently evaluating the impact of these statements on its financial statements and related disclosures.

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 postretirement 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 past three years ended December 31, 2008, as well as the effect of changes to these estimates, can be found on pages 48 to 53 of the Company's 2008 Annual Report.
As at June 30, 2009 and December 31 and June 30, 2008, the Company had the following amounts outstanding relating to its critical accounting estimates:

In millions	June 30 2009 (Unaudited)	December 31 2008	June 30 2008 (Unaudited)
Pension asset	$ 1,578	$ 1,522	$ 1,858
Pension liability	245	237	193
Other postretirement benefits liability	255	260	268

Provision for personal injury and other claims	424	454	450