ACTIVISION INC /NY
Form 4
April 03, 2003

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 FORM 4                                   UNITED STATES SECURITIES AND EXCHANGE COMMISSION
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[ ]Check this box if no longer subject to
   Section 16.  Form 4 or Form 5
   obligations may continue.  See           STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP
   Instruction 1(b).

                                   Filed pursuant to Section 16(a) of the Securities Exchange Act of
                                       Section 17(a) of the Public Utility Holding Company Act of 193
                                           or Section 30(h) of the Investment Company Act of 1940
(Print or Type Responses)

1. Name and Address of Reporting Person*    2. Issuer Name and Ticker or Trading Symbol      6.

   Kotick         Robert              A.       Activision, Inc. (ATVI)
__________________________________________  ____________________________________________     _X_
  (Last)          (First)         (Middle)  3. IRS Identification    4. Statement for        _X_
                                               Number of Reporting      Month/Day/Year
  c/o Activision, Inc.                         Person, if an entity                             C
  3100 Ocean Park Boulevard                    (voluntary)              April 1, 2003           C
__________________________________________                          _________________________
  (Street)                                                          5. If Amendment, Date    7.
                                                                       of Original
  Santa Monica      CA              90405                              (Month/Day/Year)      _X_
__________________________________________                                                   ___
  (City)          (State)           (Zip)


                                              Table I - Non-Derivative Securities Acquired, Dispose

                                          2A.                                                5. Amou
                                          Deemed   3. Trans-    4. Securities Acquired (A)     Secu
                               2. Trans-  Exe-        action       or Disposed of (D)          Bene
                                  action  cution      Code         (Instr. 3, 4 and 5)         Owne
                                  Date    Date,       (Instr.      -----------------------     Foll
                                  (Month/ if any       8)                   (A)                Repo
1.  Title of Security             Day/    (Month/   ----------     Amount    or    Price       Tran
    (Instr.3)                     Year)   Day/Year)  Code   V               (D)                acti
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Reminder:  Report on a separate line for each class of securities beneficially owned directly or
* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

                                Persons who respond to the collection of information co
                                in this form are not required to respond unless the for
                                a currently valid OMB control number
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e Company has a five-year revolving agreement, expiring in June 2003, to sell eligible freight trade receivables up to a maximum of $350 million of receivables outstanding at any point in time. The Company intends to renew or replace the program upon expiration. At December 31, 2002, pursuant to the agreement, $173 million and U.S.$113 million (Cdn$177 million) had been sold on a limited recourse basis compared to $168 million and U.S.$113 million (Cdn$179 million) at December 31, 2001. Recourse is limited to 10% of receivables sold and consists of additional freight trade receivables that have been recorded in Other current assets. The Company has retained the responsibility for servicing, administering and collecting freight trade receivables sold. Other income included $9 million in 2002 and $10 million in each of 2001 and 2000 for costs related to the agreement, which fluctuate with changes in prevailing interest rates. No servicing asset or liability has been recorded since the costs of servicing are compensated by the benefits of the agreement. The Receivables Purchase Agreement provides for customary indemnification provisions, which survive for a period of two years following the final purchase of any receivable, three years from the final collection date or until statute barred, in the case of taxes. As at December 31, 2002, the Company has not recorded a liability associated with these indemnifications, for which there is no monetary limitation, as the Company does not expect to make any payments pertaining to the indemnifications of this program. Canadian GAAP 102 Canadian National Railway Company Notes to Consolidated Financial Statements 5 Properties In millions December 31, 2002 December 31, 2001

Accumulated Accumulated Cost depreciation Net Cost depreciation Net

-- Track, roadway and land...................$16,727 $3,604 $13,123 $16,549 $3,510 $13,039 Rolling stock.............................. 3,841 1,392 2,449 3,703 1,336 2,367 Buildings................................. 1,723 778 945 1,622 721 901 Other..................................... 892 511 381 919 503 416

-- $23,183 $6,285 $16,898 $22,793 $6,070 $16,723

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Capital leases included in rolling stock...$ 1,348 $ 244 $ 1,104 $ 1,246 $ 218 $ 1,028

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6 Other assets and deferred charges In millions December 31, 2002 2001

-- Investments...................................... $380 $496 Prepaid benefit cost (Note 13) .... 353 251 Deferred receivables .... 88 108 Unamortized debt issue costs .... 41 42 Other .... 1 4 ----------- $863 $901 ============ Investments As at December 31, 2002, the Company had $368 million ($478 million at December 31, 2001) of investments accounted for under the equity method and $12 million ($18 million at December 31, 2001) of investments accounted for under the cost method. Investment in Tranz Rail Holdings Limited (Tranz Rail) and Australian Transport Network Limited (ATN) In 2002, the Company sold its interests in Tranz Rail and ATN for aggregate net proceeds of $69 million, which approximated the carrying value of the investments. Prior to the sale, the Company had accounted for these investments as "available for sale." Investment in English Welsh and Scottish Railway (EWS) Through its acquisition of WC in 2001, the Company acquired 40.9% of EWS, a company which provides most of the rail freight services in Great Britain, operates freight trains through the English Channel tunnel and carries mail for the Royal Mail. The final fair value of the investment at the date of acquisition was determined based on the discounted cash flow method and a multiple of EWS earnings. The Company accounts for its investment in EWS using the equity method. At December 31, 2002, the excess of the Company's share of the book value of EWS' net assets over the carrying value of the investment is being depreciated over the life of its assets and is not significant. Investment in 360networks Inc. In June 2001, the Company recorded a charge of $99 million, $77 million after tax, to write down 100% of its net investment in 360networks Inc. and subsequently sold all of its shares. In 2000, the Company had recorded a gain of $84 million, $58 million after tax, related to the exchange of its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc. 7 Credit facilities In December 2002, the Company entered into a U.S.$1,000 million three-year revolving credit facility and concurrently terminated its previous revolving credit facilities before their scheduled maturity in March 2003. The credit facility provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate, plus applicable margins. The credit facility agreement contains customary financial covenants, based on U.S. GAAP, including limitations on debt as a percentage of total capitalization and maintenance of tangible net worth above pre-defined levels. Throughout the year, the Company was in compliance with all financial covenants contained in its outstanding revolving credit agreements. The Company's commercial paper program is backed by a portion of its revolving credit facility. As at December 31, 2002, the Company had outstanding commercial paper of U.S.$136 million (Cdn$214 million) compared to U.S.$213 million (Cdn$339 million) as at December 31, 2001. The Company's borrowings of U.S.$172 million (Cdn$273 million) outstanding at December 31, 2001 were entirely repaid in the first quarter of 2002. At December 31, 2002, the Company had borrowings under its revolving credit facility of

U.S.$90 million (Cdn$142 million) at an average interest rate of 1.77%. Outstanding letters of credit under the previous facilities were transferred into the current facility. As at December 31, 2002, letters of credit under the revolving credit facility amounted to $295 million. Canadian GAAP Canadian National Railway Company 103 Notes to Consolidated Financial Statements 8 Accounts payable and accrued charges In millions December 31, 2002 2001 -- Trade payables.................................. $ 436 $385 Income and other taxes.......................... 251 236 Payroll-related accruals........................ 235 218 Workforce reduction provisions................. 168 151 Personal injury and other claims (Note 20)...... 136 51 Accrued charges................................ 113 131 Accrued interest............................... 104 141 Accrued operating leases....................... 18 19 Other.. 26 42 ------------- $1,487 $1,374 ============== 9 Other liabilities and deferred credits In millions December 31, 2002 2001 -- Personal injury and other claims, net of current portion (Note 20)............ $528 $379 Workforce reduction provisions, net of current portion (A).................. 253 340 Accrual for post-retirement benefits other than pensions (B)...................... 284 258 Environmental reserve, net of current portion... 81 73 Deferred credits and other...................... 189 246 ------------- $1,335 $1,296 ============== A. Workforce reduction provisions (Note 14) The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of payments related to severance, early retirement incentives and bridging to early retirement, the majority of which will be disbursed within the next three years. Payments have reduced the provisions by $177 million for the year ended December 31, 2002 ($169 million for the year ended December 31, 2001). As at December 31, 2002, the aggregate provisions, including the current portion, amounted to $421 million ($491 million as at December 31, 2001). B. Post-retirement benefits other than pensions (i) Change in benefit obligation In millions Year ended December 31, 2002 2001 -- Benefit obligation at beginning of year........... $309 $242 Amendments....................................... 18 25 Actuarial loss................................... 101 20 Interest cost................................... 23 19 Service cost..................................... 13 11 Foreign currency changes.......................... (1) 6 Transfer from other plans........................ - 5 Benefits paid.................................... (19) (19) ----------- Benefit obligation at end of year................ $444 $309 ============ (ii) Funded status In millions December 31, 2002 2001 -- Unfunded benefit obligation at end of year........ $444 $309 Unrecognized net actuarial loss.................. (122) (26) Unrecognized prior service cost.................. (38) (25) ----------- Accrued benefit cost for post-retirement benefits other than pensions.................. $284 $258 ============ (iii) Components of net periodic benefit cost In millions Year ended December 31, 2002 2001 2000 -- Interest cost........................... $23 $19 $15 Service cost............................ 13 11 8 Amortization of prior service cost....... 5 3 1 Recognized net actuarial loss............ 4 2 1 ------------------- Net periodic benefit cost................ $45 $35 $25 ==================== (iv) Weighted-average assumptions December 31, 2002 2001 2000 -- Discount rate........................... 6.65% 6.97% 6.95% Rate of compensation increase........... 4.00% 4.00% 4.25% -- For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 17% for 2003 and 18% for 2002. It is assumed that the rate will decrease gradually to 8% in 2012 and remain at that level thereafter. A one-percentage-point change in the health care cost trend rate would not cause a material change in the Company's net periodic benefit cost nor the post-retirement benefit obligation. Canadian GAAP 104 Canadian National Railway Company Notes to Consolidated Financial Statements 10 Long-term debt Currency in which December 31, In millions Maturity payable 2002 2001 --

Debentures and notes: (A) Canadian National series: 6.63%10-year notes ....May 15, 2003 U.S.$ $ 236 $ 239 7.00%10-year notes ....Mar. 15, 2004 U.S.$ 419 422 6.45%Puttable Reset Securities (PURS) (B)..................................July 15, 2006 U.S.$ 394 398 6.38%10-year notes (C) ....Oct. 15, 2011 U.S.$ 631 636 6.80%20-year notes (C)...July 15, 2018 U.S.$ 315 318 7.63%30-year debentures..May 15, 2023 U.S.$ 236 239 6.90%30-year notes (C)...July 15, 2028 U.S.$ 749 755 7.38%30-year debentures (C) ....Oct. 15, 2031 U.S.$ 315 318 Illinois Central series: 6.75%10-year notes...May 15, 2003 U.S.$ 158 159 7.75%10-year notes...May 1, 2005 U.S.$ 158 159 6.98%12-year notes ....July 12, 2007 U.S.$ 79 80 6.63%10-year notes...June 9, 2008 U.S.$ 32 32 5.00%99-year income debentures...Dec. 1, 2056 U.S.$ 12 12 7.70% 00-year debentures ....Sep. 15, 2096 U.S.$ 197 199 Wisconsin Central series: 6.63% 10-year notes..April 15, 2008 U.S.$ 236 239 --- Total debentures and notes .... 4,167 4,205 Other: Revolving credit facilities (Note 7) .... U.S.$ 142 273 Commercial paper (D) (Note 7) .... U.S.$ 214 339 Capital lease obligations, amounts owing under equipment agreements and other (E) .... Various 1,068 1,125 --- Total other .... 1,424 1,737 --- Subtotal.. 5,591 5,942 Less: Current portion of long-term debt .... 574 163 Net unamortized discount .... 14 15 --- 588 178 --- $5,003 $5,764 === A. The Company's debentures and notes are unsecured. B. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006. C. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption. D. 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 $600 million, or the U.S. dollar equivalent. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facility. Interest rates on commercial paper at December 31, 2002 range from approximately 1.4% to 1.7%. Canadian GAAP Canadian National Railway Company 105 Notes to Consolidated Financial Statements 10 Long-term debt (continued) E. Interest rates for the capital leases range from approximately 3.0% to 14.6% with maturity dates in the years 2003 through 2025. The imputed interest on these leases amounted to $498 million as at December 31, 2002, and $545 million as at December 31, 2001. The equipment agreements are payable by monthly or semi-annual installments over various periods to 2007 at interest rates ranging from 6.0% to 6.7%. As at December 31, 2002, the principal amount repayable was $14 million ($19 million as at December 31, 2001). The capital leases, equipment agreements, and other obligations are secured by properties with a net carrying amount of $1,122 million as at December 31, 2002 and $1,096 million as at December 31, 2001. During 2002, the Company recorded $114 million in assets it acquired through the exercise of purchase options on existing leases and leases for new equipment ($91 million in 2001). An equivalent amount was recorded in debt. F. Long-term debt maturities, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2002 but excluding repayments of commercial paper and revolving credit facility of $214 million and $142 million, respectively, for the next five years and thereafter, are as follows: Year In millions -- 2003... $ 574 2004... 560 2005... 246 2006... 438 2007... 164 2008 and thereafter.................................... 3,239 -- G. The aggregate amount of debt payable in U.S. currency as at December 31, 2002 is U.S.$3,164 million (Cdn$4,987 million) and U.S.$3,334 million (Cdn$5,302 million) as at December 31, 2001. 11 Capital stock and convertible preferred securities A. Authorized capital stock The authorized capital stock of the Company is as follows: o Unlimited number of Common Shares, without par value o Unlimited number of Class A Preferred Shares, without par value issuable in series o Unlimited number of Class B Preferred Shares, without par value issuable in series B. Issued and outstanding common shares During 2002, the Company issued 7.8 million shares of which 1.8 million shares (2.1 million shares in

2001 and 1.2 million shares in 2000) was related to stock options exercised and 6.0 million shares was related to the conversion of the Company's convertible preferred securities. The total number of common shares issued and outstanding was 197.5 million as at December 31, 2002. C. Convertible preferred securities ("Securities") On May 6, 2002, the Company met the conditions required to terminate the Securities holders' right to convert their Securities into common shares of the Company, and set the conversion termination date as July 3, 2002. The conditions were met when the Company's common share price exceeded 120% of the conversion price of U.S.$38.48 per share for a specified period, and all accrued interest on the Securities had been paid. On July 3, 2002, Securities that had not been previously surrendered for conversion were deemed converted, resulting in the issuance of 6.0 million common shares of the Company. In 1999, the Company had issued 4.6 million 5.25% Securities due on June 30, 2029, at U.S.$50 per Security. These Securities were subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each Security. D. Share repurchase programs On October 22, 2002, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13.0 million common shares between October 25, 2002 and October 24, 2003 pursuant to a normal course issuer bid, at prevailing market prices. As at December 31, 2002, $203 million was used to repurchase 3.0 million common shares at an average price of $67.68 per share. In 2001, the Board of Directors of the Company approved a share repurchase program under which the Company did not repurchase any common shares. In 2000, $529 million was used to repurchase 13.0 million common shares, the maximum allowed under the program, pursuant to a normal course issuer bid at an average price of $40.70 per share. 12 Stock plans The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided below: A. Employee share plan The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employees' behalf, a further 35% of the amount invested by the employees. Participation at December 31, 2002 was 8,911 employees (9,432 at December 31, 2001). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 497,459 in 2002, 516,726 in 2001 and 637,531 in 2000, resulting in a pre-tax charge to income of $9 million, $8 million and $6 million for the years ended December 31, 2002, 2001 and 2000, respectively. Canadian GAAP 106 Canadian National Railway Company Notes to Consolidated Financial Statements B. Mid-term incentive share unit plan The Company has a share unit plan, which was approved by the Board of Directors in 2001, for designated senior management employees entitling them to receive payout on June 30, 2004 of a combination of common stock of the Company, as to fifty percent, and cash value, as to the remaining fifty percent. The share units vest conditionally upon the attainment of targets relating to the Company's share price during the six-month period ending June 30, 2004. At December 31, 2002, the total number of share units outstanding was 419,900, representing a potential maximum compensation cost of $21 million. Due to the nature of the vesting conditions, no compensation cost was recorded for 2002 and 2001. At December 31, 2002, an additional 45,100 share units remained authorized for future issuances under this plan. C. Stock options The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not exceeding 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 2002, an additional 2.6 million common shares remained authorized for future issuances under these plans. Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 2002 were 9.1 million and 2.0 million, respectively. Changes in the Company's stock options are as follows: Number Weighted-average of options exercise price --- In millions --- Outstanding at December 31, 1999 (1)...... 8.3 $ 34.88 Granted .... 2.2 $ 35.33 Canceled ....(0.4) $ 36.23 Exercised................................(1.2) $ 22.19 --------------------- Outstanding at December 31, 2000 (1)...... 8.9 $ 34.95 Conversion of WCoptions.................. 1.0 $ 58.63 Granted .... 2.4 $ 50.65 Canceled ....(0.3) $ 46.01 Exercised................................(2.1) $ 30.43 --------------------- Outstanding at December 31, 2001 (1) (2).. 9.9 $ 43.62 Granted .... 3.2 $ 76.78 Canceled ....(0.2) $ 56.98

Exercised................................(1.8) $ 39.16 --------------------- Outstanding at December 31, 2002 (1) (2)..11.1 $53.50 --------------------- (1) Includes IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. (2) Includes WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. Stock options outstanding and exercisable as at December 31, 2002 were as follows: Options outstanding Options exercisable -- Weighted- Weighted- Weighted- average average average Number years to exercise Number exercise Range of exercise prices of options expiration price of options price -- In millions In millions -- $13.50-$23.72 .... 0.1 3 $ 17.23 0.1 $ 17.23 $25.18-$35.01 .... 2.1 6 $ 33.59 1.2 $ 32.48 $35.70-$49.45 .... 3.2 6 $ 44.69 2.7 $ 44.56 $50.02-$69.77 .... 2.5 8 $ 51.43 0.8 $ 52.93 $70.04 and above .... 3.2 9 $ 77.59 0.1 $ 97.09 ----- ---- Balance at December 31, 2002 (1) .... 11.1 7 $ 53.50 4.9 $44.01 ===== ==== (1) Includes IC and WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. D. Stock-based compensation cost Compensation cost for performance-based stock option awards under these plans is determined by the options' intrinsic value in accordance with the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." No compensation cost was recognized for stock-based awards in 2002. Disclosures required under the fair value based accounting approach are presented in Note 2 - Accounting changes. Canadian GAAP Canadian National Railway Company 107 Notes to Consolidated Financial Statements 13 Pensions The Company has retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Pension Plan). The Company's other pension plans are not significant. Description of plan The Pension Plan is a contributory defined benefit pension plan that covers the majority of CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties, which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation. Funding policy Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. The latest actuarial valuation of the Pension Plan was conducted as at December 31, 2001 and indicated a funding excess. Based on the Pension Plan's current position, the Company's contributions are expected to be approximately $75 million in each of 2003, 2004 and 2005. Description of fund assets The assets of the Pension Plan are accounted for separately in the CN Pension Trust Funds and consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets. Based on the fair value of the assets held at December 31, 2002, the plan assets are comprised of 1% in cash and short-term investments, 40% in bonds and mortgages, 50% in Canadian and foreign equities and 9% in real estate and oil and gas assets. (a) Change in benefit obligation In millions Year ended December 31, 2002 2001 -- Benefit obligation at beginning of year........ $11,156 $10,855 Interest cost................................. 714 701 Actuarial (gain) loss......................... (92) 94 Service cost.................................. 99 92 Plan participants' contributions.............. 61 73 Foreign currency changes....................... (1) 6 Benefit payments and transfers................ (694) (665) -------------- Benefit obligation at end of year.............. $11,243 $11,156 =============== (b) Change in plan assets In millions Year ended December 31, 2002 2001 -- Fair value of plan assets at beginning of year. $11,763 $12,455 Employer contributions........................ 92 69 Plan participants' contributions.............. 61 73

Foreign currency changes...................... (1) 6 Actual return on plan assets.................. (39) (175) Benefit payments and transfers................ (694) (665) -------------- Fair value of plan assets at end of year....... $11,182 $11,763 ============== (c) Funded status In millions December 31, 2002 2001 -- Excess (deficiency) of fair value of plan assets over benefit obligation at end of year (1).....$ (61) $ 607 Unrecognized net actuarial (gain) loss (1)........ 282 (537) Unrecognized net transition obligation............ 19 39 Unrecognized prior service cost.................. 113 133 -------------- Net amount recognized............................ $353 $ 242 ============== (1) Subject to future reduction for gain sharing under the terms of the plan. (d) Amount recognized in the Consolidated Balance Sheet In millions December 31, 2002 2001 -- Prepaid benefit cost (Note 6).................... $353 $251 Accrued benefit cost............................ - (9) -------------- Net amount recognized............................ $353 $242 ============== (e) Components of net periodic benefit cost In millions Year ended December 31, 2002 2001 2000 -- Interest cost.......................... $ 714 $ 701 $ 690 Service cost........................... 99 92 70 Amortization of net transition obligation .... 20 20 19 Amortization of prior service cost...... 20 20 19 Expected return on plan assets.......... (874) (846) (792) Recognized net actuarial loss........... 1 - - ----------------------- Net periodic benefit cost (income)......$ (20) $ (13) $ 6 ======================= Canadian GAAP 108 Canadian National Railway Company Notes to Consolidated Financial Statements (f) Weighted-average assumptions December 31, 2002 2001 2000 -- Discount rate......................... 6.50% 6.50% 6.50% Rate of compensation increase.......... 4.00% 4.00% 4.25% Expected return on plan assets for year ending December 31............ 9.00% 9.00% 9.00% -- Effective January 1, 2003, the Company will reduce the expected long-term rate of return on plan assets from 9% to 8% to reflect management's current view of long-term investment returns. The effect of this change in management's assumption will be to increase net periodic benefit cost in 2003 by approximately $50 million. The Company has indemnified and held harmless the current trustee and the former trustee of the Canadian National Railways Pension Trust Funds, and the respective officers, directors, employees and agents of such trustees, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of their obligations under the relevant trust agreements and trust deeds, including in respect of their reliance on authorized instructions of the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements or trust deeds. As at December 31, 2002, the Company has not recorded a liability associated with these indemnifications, as the Company does not expect to make any payments pertaining to these indemnifications. 14 Workforce reduction charges In 2002, the Company announced 1,146 job reductions, in a renewed drive to improve productivity in all its corporate and operating functions, and recorded a charge of $120 million, $79 million after tax. In 2001, a charge of $98 million, $62 million after tax, was recorded for the reduction of 690 positions. Reductions relating to these charges were 388 in 2001, 433 in 2002, with the remainder to be completed by the end of 2003. The charges included payments for severance, early retirement incentives and bridging to early retirement, to be made to affected employees. 15 Interest expense In millions Year ended December 31, 2002 2001 2000 -- Interest on long-term debt............. $353 $314 $306 Interest income........................ - (2) (11) -------------------- $353 $312 $295 ==================== Cash interest payments................. $390 $307 $299 ==================== 16 Other income In millions Year ended December 31, 2002 2001 2000 -- Gain on disposal of properties........... $ 41 $ 53 $ 57 Equity in earnings of English Welsh and Scottish Railway (Note 6)......... 33 8 - Investment income....................... 18 22 - Foreign exchange gain................... 12 7 10 Gain on sale of interest in Detroit River Tunnel Company (A).................... - 101 - Write-down of investment in 360networks Inc. (Note 6).......... - (99) - Gain on exchange of investment (Note 6).. - - 84 Net real estate costs.................... (15) (20) (22) Other................................... (13) (7) (3) -------------------- $ 76 $ 65 $126 ==================== A. In March 2001, the Company completed the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT) for proceeds of $112 million and recorded a gain of $101 million, $82 million after tax. The DRT is a 1.6 mile rail-only tunnel crossing the Canada-U.S. border between Detroit and Windsor, Ontario. 17 Income taxes The Company's consolidated effective income tax rate differs from the statutory Federal tax rate. The reconciliation of income tax expense is as follows: In millions Year ended December 31, 2002 2001 2000 -- Federal tax rate...................... 26.1% 28.1% 29.1% Income tax expense at the statutory Federal tax rate.................... $(219) $ (314) $ (353) Income tax (expense) recovery resulting from: Provincial and other taxes.......... (97) (134) (148) Deferred income tax adjustment due to rate reductions............ - - (4) U.S. tax rate differential.......... 1 1 7 Gain on disposals and dividends..... 6 27 20 Other.............................. 41 28 36 ---------------------- Income tax expense..................... $ (268) $ (392) $ (442) ====================== Income before income taxes Canada.............................. $ 900 $ 955 $ 999 U.S................................ (61) 164 217 ---------------------- $ 839 $1,119 $1,216 ====================== Current income taxes Canada.............................. $ (130) $ (99) $ (153) U.S................................ 18 14 (71) ---------------------- $ (112) $ (85) $ (224) ====================== Deferred income taxes Canada.............................. $ (161) $ (226) $ (228) U.S................................ 5 (81) 10 ---------------------- $ (156) $ (307) $ (218) ====================== Cash payments for income taxes......... $ 65 $ 63 $ 101 ====================== Canadian GAAP Canadian National Railway Company 109 Notes to Consolidated Financial Statements 17 Income taxes (continued) Significant components of deferred income tax assets and liabilities are as follows: In millions December 31, 2002 2001 --- Deferred income tax assets Workforce reduction provisions................. $ 144 $ 178 Accruals and other reserves..................... 263 182 Post-retirement benefits........................ 99 85 Losses and tax credit carryforwards............ 69 53 -------------- 575 498 -------------- Deferred income tax liabilities Properties and other............................ 4,278 4,074 -------------- Total net deferred income tax liability......... 3,703 3,576 Net current deferred income tax asset........... 122 153 -------------- Net long-term deferred income tax liability..... $3,825 $3,729 ============== Net deferred income tax liability Canada..................................... $ 436 $ 291 U.S... 3,267 3,285 -------------- $3,703 $3,576 ============== The Company expects to realize its deferred income tax assets from the generation of future taxable income, as the related payments are made and losses and tax credits carryforwards are utilized. The Company recognized tax credits of $9 million in 2002 for research and development expenditures ($35 million in 2001 for investment tax credits) not previously recognized, which reduced the cost of properties. 18 Segmented information The Company operates in one business segment with operations and assets in Canada and the United States. Information on geographic areas In millions Year ended December 31, 2002 2001 2000 --- Revenues: Canadian rail....................... $3,726 $3,675 $3,668 U.S. rail.......................... 2,384 1,977 1,778 ---------------------- $6,110 $5,652 $5,446 ====================== Operating income: Canadian rail .... $ 954 $ 966 $1,025 U.S. rail .... 162 400 360 ---------------------- $1,116 $1,366 $1,385 ====================== Net income: Canadian rail .... $ 577 $ 591 $ 589 U.S. rail .... (6) 136 185 ---------------------- $ 571 $ 727 $ 774 ====================== In millions Year ended December 31, 2002 2001 2000 --- Depreciation and amortization: Canadian rail (A) .... $ 278 $ 255 $ 232 U.S. rail .... 228 214 189 ---------------------- $ 506 $ 469 $ 421 ====================== Capital expenditures: (B) Canadian rail (C) .... $ 491 $ 484 $ 541 U.S. rail .... 194 177 215 --- $ 685 $ 661 $ 756 ====================== In millions December 31, 2002 2001 --- Identifiable assets: Canadian rail............................... $ 7,402 $ 6,987 U.S. rail (D)............................... 11,522 11,801 ---------------------- $18,924 $18,788 ====================== (A) Includes $7 million (2001: $6 million, 2000: $9 million) of depreciation and amortization of properties related to other business activities. (B) Represents additions to properties that include non-cash capital expenditures financed through capital lease arrangements. (C) Includes $4 million (2001: $5 million, 2000: $9 million) of additions to properties related to other business activities. (D) Includes equity holdings in foreign investments held by the Company's U.S. subsidiaries. 19 Earnings per share The 2000 comparative figures have been restated to conform to the new accounting standard as explained in Note 2. The amended CICA Section 1650 "Foreign Currency Translation" requires restatement of prior years' income and, as such, earnings per basic and diluted share for 2000 have increased by $0.01, respectively. Year ended December 31, 2002 2001 2000 -- Basic earnings per share................ $2.87 $3.72 $3.91 Diluted earnings per share.............. $2.82 $3.62 $3.82 ===================== The following table provides a reconciliation between basic and diluted earnings per share: In millions Year ended December 31, 2002 2001 2000 -- Net income.............................. $571 $727 $774 Dividends on convertible preferred securities (Note 11)................. 6 12 11 --------------------- $565 $715 $763

===================== Weighted-average shares outstanding..... 196.7 192.1 195.0 Effect of dilutive securities and stock options .... 6.1 8.9 7.8 ===================== Weighted-average diluted shares outstanding .... 202.8 201.0 202.8 ===================== At December 31, 2002, 3.2 million stock options at a weighted- average exercise price of $77.56 were not included in the calculation of diluted earnings per share since their inclusion would have had an anti-dilutive impact. Canadian GAAP 110 Canadian National Railway Company Notes to Consolidated Financial Statements 20 Major commitments and contingencies A. Leases The Company has lease commitments for locomotives, freight cars and intermodal equipment, many of which provide the option to purchase the leased items at fixed values during or at the end of the lease term. As at December 31, 2002, the Company's commitments under operating and capital leases are $1,154 million and $1,407 million, respectively. Annual net minimum payments in each of the next five years and thereafter, are as follows: Year In millions Operating Capital -- 2003 .... $ 212 $ 168 2004 .... 188 153 2005 .... 167 111 2006 .... 139 68 2007 .... 120 123 2008 and thereafter......................... 328 784 ------------------- $1,154 1,407 Less: imputed interest on capital leases at rates ranging from approximately 3.0% to 14.6%.................... 498 ------ Present value of minimum lease payments at current rate included in debt........................... $ 909 ====== Rent expense for operating leases was $269 million, $258 million and $219 million for the years ended December 31, 2002, 2001 and 2000, respectively. Contingent rentals and sublease rentals were not significant. The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2004 and 2012, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. The maximum exposure in respect of these guarantees is $63 million. As at December 31, 2002, the Company has not recorded a liability associated with these guarantees, as the Company does not expect to make any payments pertaining to the guarantees of these leases. B. Other commitments As at December 31, 2002, the Company had commitments to acquire railroad ties, rail, freight cars and locomotives at an aggregate cost of $183 million. Furthermore, as at December 31, 2002, the Company had entered into agreements with fuel suppliers to purchase approximately 38% of its anticipated 2003 volume and 8% of its anticipated 2004 volume at market prices prevailing on the date of the purchase. C. Contingencies In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational disease and damage to property. In Canada, employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury. Accordingly, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and administration costs. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information. In the United States, employee work-related injuries, including occupational disease claims, are compensated according to the provisions of the Federal Employers' Liability Act (FELA) and represent a major expense for the railroad industry. The FELA system, which requires either the finding of fault through the U.S. jury system or individual settlements, has contributed to the significant increase in the Company's personal injury expense in recent years. In view of the Company's growing presence in the United States and the increase in the number of occupational disease claims over the past few years, an actuarial study was conducted in 2002, and in the fourth quarter of 2002 the Company changed its methodology for estimating its liability for U.S. personal injury and other claims, including occupational disease claims and claims for property damage, from a case-by-case approach to an actuarial-based approach. Consequently, and as discussed in Note 2, the Company recorded a charge of $281 million ($173 million after tax) to increase its provision for these claims. Under the actuarial-based approach, the Company accrues the cost for the expected personal injury and property damage claims and existing occupational disease claims, based on actuarial estimates of their ultimate cost. The Company is unable to estimate the total cost for unasserted occupational disease claims. However, a liability for unasserted occupational disease claims is accrued to the extent they are probable and can be reasonably estimated. Under the case-by-case approach, the Company was accruing the cost for claims as incidents were reported based on currently available information. In addition, the Company did not record a liability for unasserted claims, as such amounts could not be reasonably estimated under the case-by-case approach. The Company's expenses for personal injury and other claims, net of recoveries, and including the above-mentioned charge, were $393 million in 2002, ($78 million in 2001 and $60 million in 2000) and payments for such items were $156 million in 2002 ($149 million in 2001 and $111 million in 2000). As at December 31, 2002, the Company had aggregate reserves for personal injury and other claims of $664 million ($430 million at December 31, 2001). Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at December 31, 2002, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year. Canadian GAAP Canadian National Railway Company 111 Notes to Consolidated Financial Statements 20 Major commitments and contingencies (continued) D. Environmental matters The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property. While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to: (i) the lack of specific technical information available with respect to many sites; (ii) the absence of any government authority, third-party orders, or claims with respect to particular sites; (iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites; (iv) the ability to recover costs from any third parties with respect to particular sites; and therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known. As at December 31, 2002, the Company had aggregate accruals for environmental costs of $106 million ($112 million as at December 31, 2001). During 2002, payments of $16 million were applied to the provision for environmental costs compared to $14 million in 2001 and $11 million in 2000. The Company anticipates that the majority of the liability at December 31, 2002 will be paid out over the next five years. In addition, related environmental capital expenditures were $19 million in both 2002 and 2001 and $20 million in 2000. The Company expects to incur capital expenditures relating to environmental matters of approximately $20 million in each of 2003 and 2004 and $17 million in 2005. E. Standby letters of credit The Company, including certain of its subsidiaries, has granted irrevocable standby letters of credit, issued by highly rated banks, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at December 31, 2002, the maximum potential liability under these letters of credit was $403 million of which $334 million was for workers' compensation and other employee benefits and $69 million was for equipment under leases and other. As at December 31, 2002, the Company has not recorded a liability with respect to these guarantees, as the Company does not expect to make any payments in excess of what is recorded on the Company's financial statements for the aforementioned items. The standby letters of credit mature at various dates between 2003 and 2007. F. 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; (d) contracts for the acquisition of services; (e) financing agreements; (f) trust indentures or fiscal agency 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; and (h) trust agreements establishing trust funds to secure the payment to certain officers and senior employees of special retirement compensation arrangements or plans. 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 payment cannot be determined with certainty, however, may be material. Canadian GAAP 112 Canadian National Railway Company Notes to Consolidated Financial Statements 21 Financial instruments A. Risk management The Company has limited involvement with derivative financial instruments in the management of its fuel, foreign currency and interest rate exposures, and does not use them for trading purposes. (i) Credit risk In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of each new customer. The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. Although collateral or other security to support financial instruments subject to credit risk is usually not obtained, counterparties are of high credit quality and their credit standing or that of their guarantor is regularly monitored. As a result, losses due to counterparty non-performance are not anticipated. The total risk associated with the Company's counterparties was immaterial at December 31, 2002. The Company believes there are no significant concentrations of credit risk. (ii) Fuel To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. Realized gains and losses from the Company's fuel hedging activities were a $3 million gain, a $6 million loss and a $49 million gain for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, the Company has hedged approximately 47% of the estimated 2003 fuel consumption and 25% of the estimated 2004 fuel consumption. This represents approximately 263 million U.S. gallons at an average price of U.S.$0.5865 per U.S. gallon. Unrecognized gains and losses from the Company's fuel hedging activities were a $30 million gain, a $38 million loss and a $17 million loss as at December 31, 2002, 2001 and 2000, respectively. (iii) Foreign currency Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues and expenses. For the purpose of minimizing volatility of earnings resulting from the conversion of U.S. dollar denominated long-term debt into the Canadian dollar, the Company has designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar denominated long-term debt are recorded in Currency translation, which forms part of Shareholders' equity. (iv) Interest rates From time to time, the Company enters into interest rate swap transactions for the purpose of minimizing the volatility in the fair value of certain fixed-interest long-term debt. In 2002 and 2001, the Company did not enter into any interest rate swap transactions. (v) Other The Company does not currently have any derivative instruments not designated as hedging instruments. B. Fair value of financial instruments Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions: (i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments. (ii) Other assets and deferred charges: Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of a cost investment for which the fair value was estimated based on the Company's proportionate share of its net assets. (iii) Long-term debt: The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. (iv) Convertible preferred securities: In 2001, the fair value of the Company's convertible preferred securities was estimated based on the quoted market price. Canadian GAAP Canadian National Railway Company 113 Notes to Consolidated Financial Statements 21 Financial instruments (continued) The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2002 and 2001 for which the carrying values on the Consolidated Balance Sheet are different from the fair values: In millions December 31, 2002 December 31, 2001 -- Carrying Fair Carrying Fair amount value amount value -- Financial assets Investments....................... $ 380 $ 440 $ 496 $ 551 Financial liabilities Long-term debt (including current portion).... $5,577 $5,738 $5,927 $5,986 Other Convertible preferred securities.. $ - $ - $ 327 $ 479 -- 22 Reconciliation of Canadian and United States generally accepted accounting principles The consolidated financial statements of Canadian National Railway Company are expressed in Canadian dollars and are prepared in accordance with Canadian GAAP which conform, in all material respects, with U.S. GAAP except as described below: A. Reconciliation of net income The application of U.S. GAAP would have the following effects on the net income as reported: In millions Year ended December 31, 2002 2001 2000 --- Net income - Canadian GAAP .... $ 571 $727 $774 Adjustments in respect of: Property capitalization, net of depreciation .... 363 339 278 Interest on convertible preferred securities .... (9) (19) (18) Stock-based compensation cost .... (9) (19) (3) Income tax rate reductions .... - 122 (4) Income tax expense on current year U.S. GAAP adjustments .... (116) (110) (90) --------------------- Net income - U.S. GAAP .... $ 800 $1,040 $937 ===================== (i) Property capitalization Under Canadian GAAP, the Company capitalizes only the material component of track replacement costs, to the extent it meets the Company's minimum threshold for capitalization, whereas under U.S. GAAP the labor, material and related overheads are capitalized. Furthermore, the Company capitalizes under U.S. GAAP all major expenditures for work that extends the useful life and/or improves the functionality of bridges and other structures and freight cars. (ii) Stock-based compensation As explained in Note 2, effective January 1, 2002, the Company adopted the CICA recommendations related to the accounting for stock-based compensation and other stock-based payments. The Company has elected to prospectively apply the recommendations to its awards of conventional and performance-based employee stock options granted on or after January 1, 2002. Compensation cost attributable to performance-based employee stock option awards granted before such date continues to be a reconciling difference. (iii) Convertible preferred securities As explained in Note 11, the Convertible preferred securities (Securities) were converted into common shares of the Company on July 3, 2002. Prior to such date, the Securities were treated as equity under Canadian GAAP, whereas under U.S. GAAP they were treated as debt. Consequently, the interest on the Securities until July 3, 2002 was treated as a dividend for Canadian GAAP but as interest expense for U.S. GAAP. (iv) Foreign exchange In 2001, the Company early adopted the CICA amended recommendations of Section 1650 "Foreign Currency Translation," which essentially harmonizes Canadian and U.S. accounting standards by eliminating the deferral and amortization of unrealized translation gains or losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of a fiscal year and recognizing them into net income immediately. As required by the amended section, the Company has retroactively restated all prior period financial statements presented. (v) Income tax expense In 2001, under U.S. GAAP, the Company recorded a reduction to its net deferred income tax liability resulting from the enactment of lower corporate tax rates in Canada. As a result, a deferred income tax recovery of $122 million was recorded in the Consolidated statement of income and a deferred income tax expense of $32 million was recorded in Other comprehensive income. For Canadian GAAP purposes, there was no adjustment in 2001 as the impact resulting from lower corporate tax rates was accounted for in 2000 when the rates were substantively enacted. For the year ended December 31, 2000, the Canadian GAAP adjustment was a $4 million expense as the deferred tax position under Canadian GAAP was different. Canadian GAAP 114 Canadian National Railway Company Notes to Consolidated Financial Statements B. Earnings per share In 2000, the Company early adopted the CICA recommendations related to the presentation of earnings per share. Although the standard essentially harmonizes Canadian and U.S. standards, the earnings per share calculations continue to differ due to differences in the earnings figures. (i) Basic earnings per share Year ended December 31, 2002 2001 2000 -- Net income - U.S. GAAP .... $4.07 $5.41 $4.81 Weighted-average number of common shares outstanding (millions) - U.S. GAAP ...... 196.7 192.1 195.0 ---------------------- (ii) Diluted earnings per share Year ended December 31, 2002 2001 2000 -- Net income - U.S. GAAP .... $3.97 $5.23 $4.67 Weighted-average number of common shares outstanding (millions) - U.S. GAAP ...... 202.8 201.0 202.8 ----------------------- C. Reconciliation of significant balance sheet items (i) Shareholders' equity As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of $811 million as of June 30, 1995 through a reduction of the capital stock in the amount of $1,300 million, and created a contributed surplus of $489 million. Such a reorganization within Shareholders' equity is not permitted under U.S. GAAP. Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings. Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Capital stock. Under Canadian GAAP, the excess in cost over the stated value resulting from the repurchase of shares was allocated first to Capital stock, then to Contributed surplus and finally to Retained earnings. Under U.S. GAAP, the excess would have been allocated to Capital stock followed by Retained earnings. For Canadian and U.S. GAAP purposes, the Company designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange gain, from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange gain has been included as part of Accumulated other comprehensive income, a separate component of Shareholders' equity, as required under Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." (ii) Minimum pension liability adjustment In 2002 and 2001, one of the Company's pension plans had an accumulated benefit obligation in excess of the fair value of the plan assets. Under U.S. GAAP, this gave rise to an additional minimum pension liability. An intangible asset was recognized up to the amount of the unrecognized prior service cost and the difference has been recorded in Accumulated other comprehensive income, a separate component of Shareholders' equity. There are no requirements under Canadian GAAP to record a minimum pension liability adjustment. (iii) Derivative instruments On January 1, 2001, under U.S. GAAP, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." In accordance with these statements, the Company has recorded in its balance sheet the fair value of derivative instruments used to hedge a portion of the Company's fuel requirements. Changes in the market value of these derivative instruments have been recorded in Accumulated other comprehensive income, a separate component of Shareholders' equity. There are no similar requirements under Canadian GAAP. (iv) Convertible preferred securities As explained in Note 11, the Convertible preferred securities (Securities) were converted into common shares of the Company on July 3, 2002. Prior to such date, the Securities were treated as equity under Canadian GAAP, whereas under U.S. GAAP they were treated as debt. Consequently, the initial costs related to the issuance of the Securities, net of amortization, which were previously deferred and amortized for U.S. GAAP, have since been reclassified to equity. Canadian GAAP Canadian National Railway Company 115 Notes to Consolidated Financial Statements 22 Reconciliations of Canadian and United States generally accepted accounting principles (continued) (v) The application of U.S. GAAP would have a significant effect on the following balance sheet items as reported: In millions December 31, 2002 2001 --- Current assets - Canadian GAAP................. $ 1,163 $ 1,164 Fuel derivative instruments.................... 29 - --------------- Current assets - U.S. GAAP..................... $ 1,192 $ 1,164 =============== Properties - Canadian GAAP..................... $16,898 $16,723 Property capitalization, net of depreciation... 2,783 2,422 --------------- Properties - U.S. GAAP......................... $19,681 $19,145 =============== Other assets and deferred charges - Canadian GAAP .... $ 863 $ 901 Fuel derivative instruments.................... 1 - Intangible asset.............................. 1 1 Debt issue costs.............................. - 12 --------------- Other assets and deferred charges - U.S. GAAP.. $ 865 $ 914 =============== Current liabilities - Canadian GAAP............ $ 2,134 $ 1,638 Fuel derivative instruments.................... - 31 --------------- Current liabilities - U.S. GAAP................ $ 2,134 $ 1,669 =============== Deferred income tax liability - Canadian GAAP .... $ 3,825 $ 3,729 Cumulative effect of prior years' adjustments to income .... 955 845 Income taxes on current year U.S. GAAP adjustments .... 116 110 Income taxes on translation of U.S. to Canadian GAAP adjustments................... 16 13 Income taxes on minimum pension liability adjustment

.... (13) (6) Income taxes on fuel derivative instruments.... 10 (13) Income tax rate reductions..................... (86) (86) Other... 3 (1) --------------- Deferred income tax liability - U.S. GAAP...... $ 4,826 $ 4,591 =============== Other liabilities and deferred credits - Canadian GAAP .... $ 1,335 $ 1,296 Stock-based compensation....................... 33 24 Minimum pension liability adjustment........... 38 18 Fuel derivative instruments.................... - 7 --------------- Other liabilities and deferred credits - U.S. GAAP $ 1,406 $ 1,345 =============== Capital stock - Canadian GAAP.................. $ 3,558 $ 3,209 Capital reorganization......................... 1,300 1,300 Stock-based compensation....................... 49 48 Foreign exchange loss on convertible preferred securities .... 12 - Costs related to the sale of shares............ (33) (33) Share repurchase program....................... (101) (82) --------------- Capital stock - U.S. GAAP...................... $ 4,785 $ 4,442 =============== In millions December 31, 2002 2001 --- Convertible preferred securities - Canadian GAAP .... $ - $ 327 Debt issue costs.............................. - 12 Foreign exchange loss on convertible preferred securities .... - 27 --------------- Convertible preferred securities (classified as debt) - U.S. GAAP............ $ - $ 366 =============== Contributed surplus - Canadian GAAP............ $ 175 $ 178 Dividend in kind with respect to land transfers .... 248 248 Costs related to the sale of shares............ 33 33 Other transactions and related income tax effect.......................... 18 18 Share repurchase program....................... 15 12 Capital reorganization......................... (489) (489) --------------- Contributed surplus - U.S. GAAP................ $ - $ - =============== Currency translation - Canadian GAAP........... $ 132 $ 133 Unrealized foreign exchange gain (loss) on U.S. to Canadian GAAP adjustments, net of applicable taxes..................... 1 (7) Fuel derivative instruments, net of applicable taxes..................... 20 (25) Income tax rate reductions..................... (32) (32) Minimum pension liability adjustment, net of applicable taxes..................... (24) (11) --------------- Accumulated other comprehensive income - U.S. GAAP.......................... $ 97 $ 58 =============== Retained earnings - Canadian GAAP.............. $ 2,762 $ 2,514 Cumulative effect of prior years' adjustments to income....................... 1,449 1,136 Current year adjustments to net income......... 229 313 Share repurchase program....................... 86 70 Cumulative dividend on convertible preferred securities........................ 38 32 Capital reorganization......................... (811) (811) Dividend in kind with respect to land transfers.............................. (248) (248) Other transactions and related income tax effect.......................... (18) (18) --------------- Retained earnings - U.S. GAAP.................. $ 3,487 $ 2,988 =============== Canadian GAAP 116 Canadian National Railway Company Notes to Consolidated Financial Statements 23 Quarterly financial data -- unaudited In millions, except per share data --- 2002 2001 First Second Third Fourth (1) First Second Third Fourth ---

Revenues.................................... $1,509 $1,551 $1,503 $1,547 $1,398 $1,392 $1,325 $1,537 Operating income .... $ 372 $ 385 $ 362 $ (3) $ 362 $ 245 $ 331 $ 428 Net income .... $ 211 $ 212 $ 187 $ (39) $ 271 $ 40 $ 178 $ 238 Basic earnings per share .... $ 1.08 $ 1.08 $ 0.93 $ (0.20) $ 1.40 $ 0.19 $ 0.91 $ 1.22 Diluted earnings per share .... $ 1.04 $ 1.04 $ 0.92 $ (0.19) $ 1.36 $ 0.19 $ 0.88 $ 1.18 Dividend declared per share .... $0.215 $0.215 $0.215 $ 0.215 $0.195 $0.195 $0.195 $0.195 ==

(1) In the fourth quarter of 2002, the Company recorded a charge of $281 million ($173 million after tax) to increase its liability for U.S. personal injury and other claims and a charge for workforce reductions of $120 million ($79 million after tax). 24 Comparative figures Certain figures, previously reported for 2001 and 2000, have been reclassified to conform with the basis of presentation adopted in the current year. Canadian GAAP Canadian National Railway Company 117 The CN Pension Plan and the CN 1935 Pension Plan General review Trustee Effective January 1, 2002, CIBC Mellon Trust Company (CIBC Mellon) was appointed as Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds, or Funds), replacing Montreal Trust Company of Canada. As Trustee, CIBC Mellon performs certain duties which include holding legal title to the assets of the Funds and providing a certificate confirming that Canadian National Railway Company (CN), as Administrator, complied with the provisions of the CN Pension Plan, the CN 1935 Pension Plan and the Pension Benefits Standards Act, 1985 and its regulations. The checks and direct deposit payments in respect of these plans were issued in the name of the CN Pension Trust Funds from bank accounts in the name of CIBC Mellon, Trustee of the CN Pension Trust Funds. Administration of the pension plans Overall accountability for the pension and benefit administration is the responsibility of CN. Mercer Human Resource Consulting, an employee benefits consulting firm, performs agreed-on pension and benefit

administration services on behalf of CN. Pension benefits A. Pension improvements The following pension improvements are effective January 1, 2002 and are based on recommendations made by the Pension Committee in 2001 and approved by CN's Board of Directors: o The pension formula was increased from 1.6%/2.0% to 1.7%/2.0% for active members on January 1, 2002, for each year of pensionable service from January 1, 1966 for the CN Pension Plan only. o The eligibility requirements to qualify for indexation were shortened from age 60 and at least five complete calendar years since retirement to age 59 and at least four complete calendar years since retirement. o Pensions were indexed at 75% of inflation rather than 60% of inflation for the year 2002. Retirees and survivors who met the eligibility requirements saw their 2002 pension increase by 2.25% instead of 1.8% on the first $3,000 of basic monthly pension. This was a lifetime pension benefit increase. o A special improvement to pensions was paid to eligible retirees and surviving spouses entitled to indexation on January 1, 2002, based on the number of years that such retirees were on pension and their pensionable service at the time of retirement. This was a lifetime pension benefit increase. In addition to these improvements, the CN Pension Plan was amended to provide for a reduction in the basic employee contribution rates, subject to certain conditions, from 5.48%/6.98% to 4.3%/6.3%, effective January 1, 2002. This improvement reflected an agreement that CN reached with five of its six unions on the implementation of an employee-paid Long Term Disability (LTD) plan for unionized employees active on January 1, 2002 and thereafter. The remaining union had established an employee-paid LTD plan in 1999 and the members of such union also benefited from the contribution reductions, subject to the same conditions applicable to the other unionized members. Disability pensions under the CN Pension Plan will be reduced to reflect the benefit payable under such employee-paid LTD plans. The non-unionized employees also benefited from the contribution reductions and the full cost of this reduction was charged to the Non-Unionized Employees' Improvement Account as they have been covered by a CN-paid LTD plan under the CN Flex Benefit Program for many years. In 2002, CN's Board of Directors approved the recommendation made by the Pension Committee to index pensions at 75% of inflation rather than 60% of inflation for the year 2003. Therefore, retirees and survivors who meet the eligibility requirements will see their 2003 pension increase by 1.275% instead of 1.02% on the first $3,250 of basic monthly pension. This is a lifetime pension benefit increase. B. Indexation agreement and escalation account As a result of the indexation agreement negotiated with the railway unions in 1989 and improvements to such agreement negotiated in 1992 and 1998, approximately 41,500 retirees and surviving spouses received permanent pension increases in 2002. These increases amounted to 2.25% on the first $3,000 of basic CN monthly pension, with a guaranteed minimum monthly pension increase of $9.00 for eligible retirees and $4.50 for eligible surviving spouses. Under this indexation agreement, effective January 1, 1989, 50% of the experience gains or losses related to pensioners are accounted for separately in the Escalation Account. Net experience gains are used to pay for indexation of pensions above the minimum up to the maximum annual amount. The maximum annual indexation for eligible retirees and survivors is 60% (75% for the 2002 and 2003 indexation) of the increase in the Consumer Price Index (CPI) to a maximum increase in CPI of 6%, with an annual limit on the amount of pension which can be indexed. The Pension Committee may recommend additional benefits for pensioners, financed through the Escalation Account, if the balance in the account exceeds a certain threshold. These additional benefits are subject to approval by CN's Board of Directors. Such additional benefits were granted on January 1, 2002 as indicated under section A. Pension improvements. In 2002, CN's Board of Directors approved the Pension Committee's recommendation to increase maximum indexation for 2003 only, effective January 1, 2003 as indicated under section A. Pension improvements. The value of such improvements was charged to the Escalation Account in the current valuation. 118 The CN Pension Plan and the CN 1935 Pension Plan The CN Pension Plan and the CN 1935 Pension Plan C. Improvement accounts Effective January 1, 1998, the unions and CN agreed to share the experience gains (losses) resulting from investment earnings related to active unionized members of the CN Pension Plan, based on the same concept as the indexation agreement. Under this agreement, annual calculations determine the amount of experience gains or losses to be credited (debited) to an account referred to as the Unionized Employees' Improvement Account. The balance of such account, if positive, may be used to improve benefits of unionized active members or reduce their contributions, as recommended by the Pension Committee and approved by CN's Board of Directors. The improvement account concept was also extended to non-unionized members and separate accounts were created for unionized and non-unionized members. The increase in the pension formula on January 1, 2002 as described under section A. Pension improvements was financed through the Improvement Accounts as of January 1, 2002. Annual pension statements As required by the Pension Benefits Standards Act, 1985 and to keep employees who are members of the CN Pension Plan and the CN 1935

Pension Plan updated annually on their personal entitlement, personalized pension statements were prepared as at December 31, 2001 and distributed by June 2002. Services to pensioners A. Direct deposit: The Direct Deposit System (DDS) is available to all retirees and survivors. Under this system, the monthly pension benefit is deposited directly into the individual's personal account. An itemized pension pay stub is sent to that individual initially, each January and whenever the gross or net amount changes. About 40,700 pensioners used this service in 2002. B. Toll-free help lines: Approximately 45,400 calls were handled in 2002 through the central toll-free help line (1-800-361-0739). Staff handling the toll-free telephone line have ready access to records and information required for quick, efficient and accurate responses to most callers' needs - in both of Canada's official languages. Trustee's report To the Administrator and the Members of the CN Pension Plan and the CN 1935 Pension Plan We, CIBC Mellon Trust Company, are the Trustee of the Canadian National Railways Pension Trust Funds ("CN Pension Trust Funds"). As Trustee, we have appointed KPMG LLP to examine the systems, procedures and internal controls used in respect to the custody, investment and administration of the assets of the CN Pension Trust Funds, the administration of the CN Pension Plan and the CN 1935 Pension Plan ("1935 Plan"), and the performance of the Canadian National Railway Company ("CN") as Administrator of the CN Pension Plan and the 1935 Plan for the year ended December 31, 2002. Our examination included such tests and procedures as were considered necessary in the circumstances taking into consideration the requirements of the Trust Deeds and our experience in the Canadian pension industry. In our opinion, based on the reasonable, but not absolute, degree of assurance obtained from the examination performed, the aforementioned systems, procedures and internal controls used by CN as Administrator, operated effectively during the year ended December 31, 2002 and complied with the objectives of the Pension Benefits Standards Act, 1985 and its Regulations. (signed) CIBC Mellon Trust Company Trustee of the Canadian National Railways Pension Trust Funds Toronto, January 20, 2003 The CN Pension Plan and the CN 1935 Pension Plan 119 The CN Pension Plan and the CN 1935 Pension Plan Actuary's report To the Board of Directors of Canadian National Railway Company We have conducted actuarial valuations for funding purposes as at December 31, 2001 for the CN Pension Plan and the CN 1935 Pension Plan. As at December 31, 2001, these valuations revealed a consolidated actuarial liability of $10,486 million, a consolidated surplus of $482 million and a current service cost net of plan members' contributions of $87 million in 2002. The next actuarial valuations will be conducted as at December 31, 2004, at the latest. In my opinion, for the purposes of the valuations, o the data on which these valuations were based were sufficient and reliable, o the assumptions are, in aggregate, appropriate, and o the methods employed in the valuations are appropriate. We have also conducted actuarial valuations for accounting purposes as at December 31, 2001 for the CN Pension Plan and the CN 1935 Pension Plan. These valuations were made in accordance with the requirements of Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants (CICA). They revealed a consolidated actuarial liability of $10,933 million. The difference between the results of the actuarial valuations conducted for funding purposes and those conducted for accounting purposes is mainly due to the CICA Section 3461 requirement to use an interest rate inherent in the amount at which the actuarial liability could be settled at the date of valuation. Both valuations have been prepared and, my opinions given, in accordance with accepted actuarial practice. (signed) Bernard Morency Fellow of the Canadian Institute of Actuaries Mercer Human Resource Consulting Limited Montreal, January 21, 2003 Auditors' report To the Board of Directors of Canadian National Railway Company We have audited the consolidated statement of net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2002 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation. In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2002 and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles. (signed) KPMG LLP Chartered Accountants Montreal, Canada January 20, 2003 120 The CN Pension Plan and the CN 1935 Pension Plan Consolidated Statement of Net Assets at Market Value In millions As at December 31, 2002 2001 --- Bonds .... $ 4,096 $

3,733 Mortgages .... 319 272 Real estate .... 318 271 Oil and gas .... 657 468 Equities .... 5,565 6,033 Cash and short-term investments .... 143 890 -------------------- 11,098 11,667 Receivable from Canadian National Railway Company ... 4 5 Net other liabilities .... (9) (1) -------------------- $ 11,093 $ 11,671 ======== ======== On behalf of the Board: David G.A. McLean E. Hunter Harrison Director Director See accompanying notes to consolidated financial statements. The CN Pension Plan and the CN 1935 Pension Plan 121 Consolidated Statement of Changes in Net Assets at Market Value In millions Year ended December 31, 2002 2001 -- Net assets at market value, beginning of year .... $ 11,671 $ 12,356 ------------------- Investment income Bonds .... 240 238 Mortgages .... 23 18 Real estate .... 10 11 Oil and gas .... 52 48 Equities .... 84 88 Short-term investments .... 14 20 ------------------- 423 423 Less administrative expenses .... (19) (18) ------------------- Investment income before net gain (loss) on sale of investments .... 404 405 Net gain (loss) on sale of investments .... (167) 486 ------------------- Total investment income .... 237 891 ------------------- Unrealized depreciation in value of investments .... (268) (1,060) ------------------- Contributions Employees .... 61 73 Company .... 74 69 ------------------- Total contributions .... 135 142 ------------------- Disbursements for members Pension benefits paid .... (645) (618) Refunds .... (37) (43) ------------------- Total disbursements for members .... (682) (661) ------------------- Transfers .... - 3 ------------------- Net decrease .... (578) (685) ------------------- Net assets at market value, end of year .... $ 11,093 $ 11,671 =================== See accompanying notes to consolidated financial statements. 122 The CN Pension Plan and the CN 1935 Pension Plan Notes to Consolidated Financial Statements 1 Description of plans These consolidated financial statements cover two pension plans, the CN Pension Plan and the CN 1935 Pension Plan (CN Plans), and include the accounts of the Canadian National Railways Pension Trust Funds and its wholly owned companies. All references in these financial statements to the "Company" refer to Canadian National Railway Company, which is the Administrator of the CN Plans. The CN 1935 Pension Plan is for a closed group of members and represents less than 1% of the pension obligation of the plans. Therefore, the following is a summarized description of the CN Pension Plan only. Please refer to the rules of the CN Pension Plan for additional information. A. General The CN Pension Plan (the Plan) is a contributory defined benefit pension plan generally applicable for employees from the first day of employment. Under this Plan, employees contribute between 4.3% and 4.7% (5.48% and 5.88% prior to January 1, 2002) of earnings up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada or Quebec Pension Plan and between 6.3% and 6.7% (6.98% and 7.38% prior to January 1, 2002) of earnings in excess of the YMPE up to a maximum of $4,989 in 2002. Participants are not required to make contributions after 35 years of pensionable service. Company contributions are determined on the basis of actuarial valuations done at least on a triennial basis in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder. B. Pensions Pensions are based on the employee's average pensionable earnings for the best five consecutive calendar years or the last 60 months of employment at the rate of 2% for each year of pensionable service prior to January 1, 1966, 1.7% for each year of pensionable service thereafter up to the average YMPE over the last 60 months and 2% of the excess of such average pensionable earnings over the average YMPE. The maximum annual pension payable is $1,715 multiplied by the pensionable service of the member. Pensionable service is limited to 35 years. C. Retirement age The normal retirement age is 65. However, with the Company's consent, employees who are at least 55 years of age and have 85 points (age plus years of pensionable service) are entitled to an early retirement pension without reduction. Employees with less than 85 points can retire anytime from age 55 with a reduction in their pension of 0.5% for each month (6% per year) between their date of retirement and their 65th birthday. D. Disability pensions A member with 10 years of pensionable service who is declared either unfit to perform his/her usual employment with the Company due to a permanent disability which occurred prior to 1992, or totally and permanently disabled due to a disability which occurred after 1991, may, subject to certain conditions, apply for an immediate reduced or unreduced pension. Any declarations in respect of a member's disability are the responsibility of CN's Chief Medical Officer. The disability pension may be adjusted to take into account benefits payable under a long-term disability plan or under a Workers' Compensation Act of any province. E. Pre-retirement survivors' pensions and death refunds A survivor's pension is payable to the eligible spouse of a member who had a minimum of two years of plan membership upon his/her death. Otherwise, a death refund is payable to the spouse, or, if there is no spouse, to the estate of the member. F. Post-retirement survivors' pensions and estate settlements Upon the death of a retiree who had an eligible spouse at retirement, either 55% or 60% of the basic pension of the retiree is payable to that spouse during his/her lifetime depending on the option elected at retirement. The survivor's pension is guaranteed for the first 10 years after retirement. If the retiree and the surviving spouse, if any, die in the first 10 years after retirement, the survivor's pension will be payable to the estate of the retiree until the 10-year period is over. G. Termination benefits Upon termination of service, a member is entitled to either his/her contributions with interest or to the value of his/her benefits accrued under the Plan or to a deferred pension or a combination of the above, depending on his/her age, pensionable service and years of membership at termination. H. Income taxes The Plan is registered under the Income Tax Act and Regulations. Contributions to the Plan are tax deductible to the Company and investment income of the Canadian National Railways Pension Trust Funds is not taxable in Canada. Investment income from some foreign countries is subject to withholding taxes, which are either fully or partially recovered. The CN Pension Plan and the CN 1935 Pension Plan 123 Notes to Consolidated Financial Statements 2 Summary of significant accounting policies A. Basis of presentation These consolidated financial statements are prepared on a market value basis, in accordance with generally accepted accounting principles in Canada for pension plans. Management is required to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from these estimates. These financial statements present the aggregate financial position of the CN Plans as a separate financial reporting entity independent of the sponsor and plan members, and are prepared to assist plan members and others in reviewing the activities of the CN Plans for the year and as such, do not portray the funding requirements of the CN Plans nor the benefit security of individual members. B. Investments Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Publicly traded securities are recorded on the trade date. Investments are stated at market value which is determined using publicly quoted prices where available. When such prices are not available, market values are estimated on the basis of the present value of estimated future net cash flows, the market value of comparable assets, or the breakup value of underlying assets. Market values of investments are determined as follows: (i) Bonds are valued using the closing market price as at December 31. (ii) Mortgages are valued using current market yields of financial instruments of similar maturity and at appropriate spreads from instruments of comparable quality. (iii) Real estate consists of land and buildings. Land is valued using the market value of comparable assets, and buildings are valued using the present value of estimated future net cash flows and the market value of comparable assets. Independent valuations of land and buildings are performed triennially. (iv) Oil and gas reserves are valued using the present value of estimated future net cash flows, which are based on projected production, prices, and costs. Land is valued using the market value of comparable assets. Trust units and equities are valued using the closing market price as at December 31. (v) Equities are valued using the closing market price as at December 31. (vi) Short-term investments and other assets are valued at cost, which approximates market value. (vii) Listed derivative financial instruments are valued using the market settlement price as at December 31. Unlisted derivative financial instruments are valued using the present value of future net cash flows determined by using closing market levels and interest rates for instruments of similar maturity and credit risk. The change in market value has been segregated in the Consolidated Statement of Changes in Net Assets at Market Value between net gain (loss) on sale of investments during the year and the unrealized appreciation (depreciation) in value of investments, which represents the balance of the change in market value of investments for the year. C. Income recognition Dividends are accrued on the ex-dividend date; income from other investments is accrued as earned. Gains or losses realized on the sale of investments are recognized on the dates of sales, are calculated based on the average cost of the assets and are included in the Consolidated Statement of Changes in Net Assets at Market Value as a net gain (loss) on sale of investments. D. Foreign exchange Assets and liabilities denominated in foreign currencies are translated using current rates as at December 31 or at the forward foreign exchange contract rates for investments that are hedged. Foreign dividends and interest income are translated at the rates prevailing when accrued. Unrealized foreign exchange gains and losses on investments incurred during the year are included in unrealized appreciation (depreciation) in value of investments. The net gain (loss) on sale of investments denominated in foreign currencies includes the foreign exchange gain or loss realized on the transaction. E. Contributions Contributions from employees are recorded in the period in which the Company makes payroll deductions. The contributions from the Company, as determined by the latest actuarial valuations, are recorded using the accrual method. F. Transfers Transfers to/from other funds are accounted for in the period in which the value of the transfers can be reasonably estimated. 124 The CN Pension Plan and the CN 1935 Pension Plan Notes to Consolidated Financial Statements 3 Investments Investments consist of securities, assets or financial instruments where the CN Plans' original intention is to hold to maturity or until market conditions render alternative investments more attractive. Significant terms and conditions related to investments as at December 31 are as follows: Market risk Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The CN Plans' policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and may include the use of derivative financial instruments to mitigate the impact of market risk. Equities are diversified by issuer and by industry. The most significant allocations to individual issuers or industry sectors are limited to 4.2% and 15.2%, (3.5% and 17.7% in 2001) respectively. Foreign currency risk Foreign currency exposure arises from investments denominated in currencies other than the Canadian dollar. Fluctuations in foreign currency rates can result in a positive or negative impact on the fair value of the CN Plans' investments. The CN Plans' exposure to currencies, as a proportion of total assets and after taking into account the effect of foreign currency derivatives positions, is as follows: As at December 31, 2002 2001 -- Canada .... 78% 73% United States of America .... 11% 18% Euro zone .... 3% 4% United Kingdom .... 2% 2% Japan .... 2% 1% Other .... 4% 2% ------------ Total .... 100% 100% ============ Interest rate risk Interestrate risk represents the risk that the market value of the CN Plans' investments will fluctuate due to changes in market interest rates. Sensitivity to interest rates is a function of the timing and amount of cash flows of the assets and liabilities of the CN Plans. The term to maturity of interest rate sensitive investments, based on contractual repricing dates, is as follows: In millions, except percentage data As at December 31, 2002 2001 --- Term to maturity ----------------------------- Average Average Within 1 1 to 5 Over 5 effective effective year years years Total yield Total yield --- Short-term investments .... $ 132 $ - $ - $ 132 2.78% $ 881 2.51% Bonds .... 34 1,637 2,425 4,096 4.59% 3,733 5.06% Mortgages .... - 76 243 319 5.44% 272 6.47% --- Total .... $ 166 $ 1,713 $ 2,668 $ 4,547 4.60% $ 4,886 4.68% === Credit risk Credit risk arises from the potential for an investee to fail or a counterparty to default on its contractual obligations to the CN Plans. In accordance with formally established policies, the CN Plans manage credit risk by dealing with counterparties considered to be of high credit quality, utilizing an internal credit limit monitoring process as well as credit mitigation techniques such as master netting and collateral agreements. Short-term investments consist primarily of securities issued by Canadian chartered banks. Seventy-eight percent (90% in 2001) of Bonds are issued or guaranteed by Canadian or U.S. governments and 18% (9% in 2001) by corporations. Mortgages are secured by real estate. At year-end, the CN Plans' most significant exposures were with Canadian governments which issued or guaranteed $3,200 million ($3,181 million in 2001) of securities held by the CN Plans. Excluding the above, the remainder of assets are diversified with no other issuer accounting for more than 2.1% (3.3% in 2001) of total net assets. Credit risk resulting from the use by the CN Plans of derivative financial instruments is addressed in Note 4. The CN Pension Plan and the CN 1935 Pension Plan 125 Notes to Consolidated Financial Statements 4 Derivative financial instruments From time to time, the CN Plans use derivative financial instruments (derivatives) for asset mix management purposes or to hedge their exposures to foreign currency, interest rate or market risks of the portfolio or anticipated transactions. Derivatives are financial instruments whose value is derived from interest rates, foreign exchange rates, equity or commodity prices. When derivatives are used for hedging purposes, the gains or losses on the derivatives are offset by a corresponding change in the value of the hedged assets. Derivatives include forwards, futures, swaps and options. Types of contracts used by the CN Plans include: o Swaps, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value. o Forwards and futures, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are standardized contracts traded on regulated exchanges and are subject to daily cash margining. The credit risk of derivative instruments is limited to the cost of replacing, at current fair value, all contracts which have a positive value. Credit risk on futures contracts is considered minimal as the counterparty to a futures contract is a public exchange, contracts are marked-to- market and margin receivables and payables are settled in cash daily. The following table summarizes the derivatives portfolio of the CN Plans and the related credit exposure: As at December 31, 2002 2001 -- Fair value (2) Fair value (2) Notional ------------------- Notional ------------------- In millions value (1) Assets Liabilities value (1) Assets Liabilities -- Interest rate: Swap contracts .... $ 50 $ 0.7 $ - $ 41 $ - $ 0.2 Futures contracts .... 765 - - 294 - - Foreign exchange: Forward contracts .... 1,209 1.7 7.5 867 15.1 7.2 Swap contracts .... - - - 65 - 7.7 Equity and commodity: Futures contracts .... 4 - - 9 - - -- Total .... $2,028 2.4 $ 7.5 $1,276 15.1 $ 15.1 -- Effect of master netting and collateral agreements .... (0.2) (2.0) -- Net credit risk (replacement cost) .... $ 2.2 $ 13.1 == (1) Notional value represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows under a derivative contract. (2) The fair values of all derivative contracts are included in the market value of the assets of the CN Plans. 5 Funding policy In respect of the CN Plans, the contributions by the Company are determined in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder, and are based on the projected unit credit actuarial cost method, with projection of salaries where future salary changes affect the amount of the projected benefits. In the case of the CN 1935 Pension Plan, the Company makes money purchase contributions in accordance with the rules of the plan. The latest actuarial valuations of the CN Plans were prepared by Mercer Human Resource Consulting Limited as at December 31, 2001 and were submitted to the Superintendent of Financial Institutions and to the Canada Customs and Revenue Agency. In these actuarial valuations, the principal assumptions adopted by the CN Plans' actuary are members' mortality, disability, retirement, termination of employment, merit and periodic increases in earnings, as well as a long-term rate of return of 7.0% (7.25% at the previous valuation) per annum on investments. Future increases in members' earnings have been projected using economic assumptions consistent with this long-term rate of return. 6 Transfers In 2002, the accounts include a provision for the amounts to be remitted to/from other funds to cover transfers of members of CN Plans to other pension plans and transfers of members of other plans to the CN Plans. 7 Consolidated actuarial pension obligation and asset value The actuarial valuations as at December 31, 2001 revealed a consolidated actuarial liability of $10,933 million and a consolidated actuarial asset value of $10,968 million. The results of these valuations were then used to estimate the corresponding figures as at December 31, 2002, which approximate $11,127 million and $11,212 million, respectively, as at that date. The principal components of the change in the pension obligations are the interest accrued on benefits ($706 million in 2002 and $693 million in 2001), benefit payments and transfers ($683 million in 2002 and $655 million in 2001), benefits accrued during the year ($157 million in 2002 and $163 million in 2001), and actuarial loss ($14 million in 2002 and $10 million in 2001). The consolidated actuarial liability was calculated in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 using a discount rate of 6.5% as at December 31, 2002 and December 31, 2001. The consolidated actuarial asset value is based on a market-related method, which recognizes the change in market value over a period of five years using the straight-line method. 126 The CN Pension Plan and the CN 1935 Pension Plan 2002 President's Awards for Excellence Representing a diverse number of functions and locations, and demonstrating an unprecedented ability to work together at all levels, a record number of employees received CN's President's Awards for Excellence in 2002. From across the entire system in both Canada and the United States, they excelled in their efforts to come up with innovative solutions, focus on results, and make a difference at CN and in their communities. Category: Safety

-- L.I.F.E. team - Richard Dare, Benton - Illinois; Scott Lipe - Carbondale, Illinois; Brad Sanders - Centralia, Illinois; Arthur Rapp - Champaign, Illinois; Cathy Cortez, Charles Webster - Chicago, Illinois; Barry Kracht - Duquoin, Illinois; Charles Scholes - Effingham, Illinois; Terry Mason, Michael Mowen - Harvey, Illinois; Paul Adams, Erik Anderson, Larry Anderson, Carol Brinkman, Ronald Ester, David Hall, Bob Keane, Pat Post, Gordon Sharp, David Sprankle - Homewood, Illinois; Kenny Monke - Mattoon, Illinois; Doyle Cowles, Steven Craig, Brian Ott, Joseph Rubino - Waterloo, Iowa; Walter Carlton III, Gary Devall - Baton Rouge, Louisiana; Frank Elkins Jr. - New Orleans, Louisiana; Jeffrey Roberts - Detroit, Michigan; Terry Tindol - Battle Creek, Michigan; John Geary Jr., William Lustig, Ray Townley - Flat Rock, Michigan; Larry Bancroft, Jim McMahon, Ron Merrow - Pontiac, Michigan; David Hayslip, Robbie Harman - Troy, Michigan; William Chesteen - Grenada, Mississippi; Winky Freeman, Johney Grayson Jr., Randy Harris, Michael Strange - Jackson, Mississippi; Bennie Punchard - McComb, Mississippi; Joseph Baroni, Tarie Smith, Michael Wells - Memphis, Tennessee This 47-member union/management team takes its name - L.I.F.E. (for Live Injury-Free Everyday) - to heart, demonstrating an unwavering commitment to railroad safety, a top priority at CN. Representing all occupations, they revised the existing safety rule books from different organizations within CN's U.S. operations and developed an innovative safety initiative that moves away from more traditional approaches to implementing railroad safety processes and procedures. Their original solution uses a number of creative methods such as peer coaching. -- Norman J. Witzell - Surrey, British Columbia Constable Witzell is a man with a mission: spreading CN's message of rail safety to every corner of British Columbia. He goes above and beyond the normal call of duty and leaves nothing out in fulfilling his role as Community Services Officer, which he conducts based on a comprehensive action plan. Category: New Business Opportunities -- Air Canada Jet Fuel team - Patrice Dery - Charny, Quebec; Mike A. Corr, Dave Howett - Concord, Ontario; Ron L. Borden - Mississauga, Ontario; Janet A. Drysdale, Carmino Russo - Montreal, Quebec These team members put their heads together to come up with a non-traditional and innovative approach to improving customer service. The result was a much quicker turnaround time for transporting jet fuel for Air Canada. -- NSC Minerals - Marc Arnaud, Tim Cowieson, Barry Pellerin - Saskatoon, Saskatchewan; Greg Kendall, Gary Parbery - Winnipeg, Manitoba A "cold call" from a Transportation officer was the initiative that got the ball rolling with NSC Minerals. With follow-up efforts from these team members, it led to bringing the company on board as an important new customer and transportation partner. The results: significant benefits to CN annually. Category: Customer Focus -- Judy Amato - Flat Rock, Michigan Judy's passion for customer service is what prompted her client, Ford, to nominate her for the President's Award. In fact, Judy's contribution has helped both Ford and CN. One of her many client-focused initiatives helped Ford save on costs by using rail instead of trucking. -- White Pine Team - Douglas Webster - Chicago, Illinois; Jeff Brazeau, Joseph Dennis, Jim Firkus, James Waitanek - Ironwood, Michigan; Brad Koenig - Fond du Lac, Wisconsin; Jack Bratanich, Kenneth Feucht, Albert Hoecherl, Gerard Jiskra, Lyle Nelson, Randy Nichols, Brent Ogle, Wayne Phetteplace, Brian Tucci, Duane Webster - Ladysmith, Wisconsin; Dan Hampston, Ronald Lake, Fred Nafey, John Wickersham - Mellen, Wisconsin; William Lange, James Mabie Sr. - Prentice, Wisconsin; Gary Bright - South Range, Wisconsin; Frederick Bandt, Brad Dupee, Thomas Helton, Gary Hoffman, Richard Hoffman, James Peterson, Corey Quante, Brian Retzlaff - Stevens Point, Wisconsin This team jumped into action during an emergency last April. It was their quick thinking and combined efforts that prevented White Pine Copper Refinery from having to shut down when it was threatened by flooding. The consequences of the measures they took were impressive: White Pine avoided substantial losses in delayed deliveries and lost production. Category: People Leadership -- Denny Duncan - Mattoon, Illinois Denny is a true role model for his staff. A dedicated manager who takes pride in his work, he is a good listener who is open to innovation, comments and suggestions. Even in extreme weather conditions, the teams he leads complete their work on schedule and under budget. And safety is always a priority in Denny's book; his bridge gangs have not had one reported injury since he took over in 1999. Category: Cost Effectiveness -- Research and Development team - Helga Audet, Hani Bazerghi, Carla D'Alessandro, Deanna Derocher, Stephen Desabrais, John Edwards, Claude Essiembre, Linda Feudi, Greg Hickson, Stella Karnis, Farveh Momayezzadeh, Bob S. Moore, Susan Parker, Anshu Pathak, Dan Toy, Bob White, Walter Zanelli - Montreal, Quebec; Timothy Keegan - Edmonton, Alberta Using creativity, this cross-functional team contributed to improving CN's bottom line. They worked together to access Canadian federal and provincial R&D tax incentives arising from CN's investments in innovation in the areas of Systems, Transportation, Engineering, Environment and Safety. The new process they introduced is generating substantial benefits for CN now and into the future. Category: Operational Breakthrough -- B&S Gang no. 70 - Doug Bainbridge, Jeff Beaudry, Mike Faubert, Rick Fortier, Don Hicks, Luc Labonte, Liduino Medeiros, Ken Payne, Todd Schell, Ernie Simard, Hank Vanstraten, Robert Zadow - Capreol, Ontario Working together, the members of this team - from field supervisor to the cook on the gang - proved that a revolutionary new procedure results in significant savings. They delivered exceptional performance in the execution of an innovative new method of bridge stringer replacement that completely transforms the traditionally labor-intensive, time-consuming task. -- WC/BLE Labor Negotiating Team - Jack Gibbins - Chicago, Illinois; Roger MacDougall - Rosemont, Illinois; Jeff Bochman - Fond du Lac, Wisconsin; John Reynolds - Green Bay, Wisconsin; Bill Grimstad, Allan Rothwell, Ed Terbell - Stevens Point, Wisconsin IC/BLE Labor Negotiating Team - Myron Becker - Chicago, Illinois; Thomas J. Goodwine - Homewood, Illinois; John P. Kay - Jackson, Mississippi; John Koonce - Memphis, Tennessee These teams are responsible for a breakthrough in labor/management relations in the United States. The new agreements reached between Wisconsin Central and the Brotherhood of Locomotive Engineers (BLE) and between Illinois Central and the BLE simplify and modernize both the language of the contracts and the nature of the employment relationship between employees and the company, and improve the employees' quality of life. Category: Bravery/Exceptional Community Service -- James Jones - Detroit, Michigan (now retired and living in Myrtle Beach, South Carolina) James was honored for an act of bravery that saved a woman's life. He came to the rescue of the elderly and handicapped senior who was trapped in a burning car in a gas station. It was thanks to his heroic act that the woman survived the life-threatening ordeal. -- Operation Lifesaver - Tom Bozyk, Sandra Hamm, Tom Hosfield, Rick Small, Ron B. Smith, Cynthia Stotz - Winnipeg, Manitoba; Don Marquis - Fort Frances, Ontario; Gerald Koopman - North Battleford, Saskatchewan; Hugh Beechy, Greg Smerchynski - Regina, Saskatchewan This team performs an important community service through Operation Lifesaver, a program to which they are totally dedicated. Their commitment to this rail industry initiative translates into increased awareness of the dangers of highway/railroad crossings and trespassing on railroad property. Team members work closely together using as many different and imaginative means as possible to get this important message out to their communities. Category: Diversity -- Brent Ballingall - Kamloops, British Columbia Brent demonstrated his commitment to diversity by taking it upon himself to actively participate in several initiatives for Aboriginal peoples. He attended conferences and workshops, took part in the development of an Aboriginal/CN database on native sites, and was involved in CN's contribution to the construction of the Skeetchestn Pow-Wow arbor. -- Judy MacKenzie - Edmonton, Alberta Judy was singled out for championing diversity in recruiting for seasonal track opportunities. In addition to advertising through TMP Worldwide recruitment services, she directly contacted the employment offices of several local Aboriginal bands. Her actions resulted in the hiring of 55 people, a third of whom represent diverse groups. Canadian National Railway Company 127 [PHOTO OMITTED] CAPTION: Left to right: David G.A. McLean, E. Hunter Harrison, Gilbert H. Lamphere, V. Maureen Kempston Darkes, James K. Gray, Cedric E. Ritchie Board of Directors (As of December 31, 2002) David G.A. McLean, O.B.C., LL.D. Chairman of the Board Canadian National Railway Company Chairman and Chief Executive Officer The McLean Group Committees: 2*, 3, 4, 5, 6, 7 E. Hunter Harrison President and Chief Executive Officer Canadian National Railway Company Committees: 3, 7 Gilbert H. Lamphere Private Investor and Former Chairman of the Board Illinois Central Corporation Committees: 1, 4, 5, 7 V. Maureen Kempston Darkes, O.C., D.Comm., LL.D. Group Vice-President General Motors Corporation and President GM Latin America, Africa and Middle East Committees: 2, 5, 7 James K. Gray, O.C., A.O.E., LL.D. Corporate Director and Former Chairman and Chief Executive Officer Canadian Hunter Exploration Ltd. Committees: 1, 2, 4, 7 Cedric E. Ritchie, O.C., LL.D. Corporate Director and Former Chairman and Chief Executive Officer The Bank of Nova Scotia Committees: 1, 2, 5, 6, 7 Paul M. Tellier resigned from the Board of Directors on December 31, 2002. 128 Canadian National Railway Company [PHOTO OMITTED] CAPTION: Left to right: Robert Pace, Michael R. Armellino, Edward C. Lumley, Denis Losier, Gordon D. Giffin, Purdy Crawford, Edith E. Holiday, J.V. Raymond

Cyr Robert Pace President and Chief Executive Officer The Pace Group Committees: 1*, 2, 6, 7 Michael R. Armellino Retired Partner The Goldman Sachs Group Committees: 1, 2, 4, 6, 7* The Honorable Edward C. Lumley, P.C., LL.D. Vice-Chairman BMO Nesbitt Burns Committees: 4, 5, 6*, 7 Denis Losier President and Chief Executive Officer Assumption Life Committees: 1, 4, 5, 7 Ambassador Gordon D. Giffin Senior Partner McKenna Long & Aldridge Committees: 1, 2, 7 Purdy Crawford, O.C., Q.C., LL.D. Chairman AT&T Canada Corp. Counsel Osler, Hoskin & Harcourt Committees: 2, 5*, 6, 7 Edith E. Holiday Corporate Director and Trustee, Former General Counsel, United States Treasury Department and Secretary of the Cabinet The White House Committees: 1, 6, 7 J.V. Raymond Cyr, O.C., LL.D. Chairman PolyValor Inc. Committees: 1, 4*, 5, 6, 7 Committees: 1 Audit, finance and risk 2 Corporate governance and nominating 3 Donations 4 Environment, safety and security 5 Human resources and compensation 6 Investment 7 Strategic planning *denotes chairman of the committee Canadian National Railway Company 129 Executive Officers of the Company David G.A. McLean Chairman of the Board E. Hunter Harrison President and Chief Executive Officer Tullio Cedraschi President and Chief Executive Officer CN Investment Division Les Dakens Senior Vice-President People Sean Finn Senior Vice-President Public Affairs, Chief Legal Officer and Corporate Secretary James M. Foote Executive Vice-President Sales and Marketing Keith L. Heller Senior Vice-President Eastern Canada Division Jack T. McBain Senior Vice-President Operations Claude Mongeau Executive Vice-President and Chief Financial Officer Robert E. Noorigian Vice-President Investor Relations 130 Canadian National Railway Company Shareholder and investor information Annual meeting The annual meeting of shareholders will be held at 10:30 am on Tuesday, April 15, 2003, at the Sheraton Center, Montreal, QC Annual information form The annual information form may be obtained by writing to: The Corporate Secretary Canadian National Railway Company 935 de La Gauchetiere Street West Montreal, Quebec H3B 2M9 Transfer agent and registrar Computershare Trust Company of Canada Offices in: Montreal, QC; Toronto, ON; Calgary, AB; Vancouver, BC Telephone: 1-800-332-0095 Fax: 1-888-453-0330 Web: www.computershare.com Co-transfer agent and co-registrar Computershare Trust Company of New York 88 Pine Street, 19th Floor Wall Street Plaza, New York, NY 10005 Telephone: (212) 701-7600 or 1-800-245-7630 U.S. cash dividends Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with: Computershare Trust Company of Canada Telephone: 1-800-332-0095 Stock exchanges Canadian National common shares are listed on the Toronto and New York stock exchanges. Ticker symbols: CNR (Toronto Stock Exchange) CNI (New York Stock Exchange) Investor relations Robert Noorigian Vice-President, Investor Relations Telephone: (514) 399-0052 or 1-800-319-9929 Shareholder services Shareholders having inquiries concerning their shares or wishing to obtain information about CN should contact: Computershare Trust Company of Canada Shareholder Services 100 University Avenue, 9th Floor Toronto, Ontario M5J 2Y1 Telephone: 1-800-332-0095 Fax: 1-888-453-0330 Email: caregistryinfo@computershare.com Head office Canadian National Railway Company 935 de La Gauchetiere Street West Montreal, Quebec H3B 2M9 P.O. Box 8100 Montreal, Quebec H3C 3N4 Additional copies of this report are La version francaise du present rapport available from: est disponible a l'adresse suivante : CN Public Affairs Affaires publiques CN 935 de La Gauchetiere Street West 935, rue de La Gauchetiere Ouest Montreal, Quebec H3B 2M9 Montreal (Quebec) H3B 2M9 Telephone:1-888-888-5909 Telephone : 1 888 888-5909 Fax: (204) 987-9310 Telecopieur : (204) 987-9310 Email: cn@wpg.faneuil.com Courriel : cn@wpg.faneuil.com [GRAPHIC OMITTED] CN 935 de La Gauchetiere Street West, Montreal, Quebec H3B 2M9 www.cn.ca

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Item 4

Computershare Trust Company of Canada
9th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
www.computershare.com

Holder Account Number

Dear Shareholder:

On behalf of the Board of Directors and Management of Canadian National Railway Company (CN), we cordially invite you to attend the annual meeting of shareholders that will be held this year in the Ballroom at Le Centre Sheraton, 1201 René-Lévesque Boulevard West, Montréal, Quebec, on Tuesday, April 15, 2003, at 10:30 a.m., Eastern Time.

The agenda and related documentation are attached. In addition to these items, we will discuss the significant changes underway in the Company as well as its coming challenges. You will have the opportunity to meet your directors and the senior officers of CN.

Your participation in the affairs of the Company is important to us. If you are unable to attend in person, we encourage you to complete and return the enclosed proxy form in the envelope provided for this purpose so that your views can be represented. Also, it is possible for you to vote over the Internet by following the instructions on the enclosed proxy form. Even if you plan to attend the meeting, you may find it convenient to express your views in advance by completing and returning the proxy form or by voting over the Internet.

If your shares are not registered in your name but are held in the name of a nominee, you may wish to consult the information on page 3 of the accompanying management proxy circular with respect to how to vote your shares.

A live Internet broadcast of the meeting will be available on our website at www.cn.ca. Should you decide to attend the meeting, please bring this letter with you to facilitate registration.

We look forward to seeing you at the meeting.

Sincerely,

E. HUNTER HARRISON	DAVID G.A. MCLEAN
President and Chief Executive Officer	Chairman of the Board

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