SCIENTIFIC GAMES CORP
Form DEF 14A
April 29, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

SCIENTIFIC GAMES CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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April 29, 2008

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Scientific Games Corporation to be held at 10:30 a.m. on Tuesday, June 10, 2008, at the Metropolitan Club, 1 East 60th Street, New York, New York.

At the Annual Meeting, you will be asked to elect directors, to ratify the appointment of the independent auditor and to approve an amendment and restatement of the Scientific Games Corporation 2003 Incentive Compensation Plan. These matters are described in detail in the accompanying Notice of Annual Meeting and Proxy Statement.

Whether you plan to attend in person or not, we encourage you to vote your shares so that they are represented at the Annual Meeting.

We look forward to seeing you at the Annual Meeting.

Sincerely,

A. Lorne Weil
Chairman of the Board

SCIENTIFIC GAMES CORPORATION
750 Lexington Avenue, 25th Floor
New York, New York 10022

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders of Scientific Games Corporation will be held at 10:30 a.m. on Tuesday, June 10, 2008, at the Metropolitan Club, 1 East 60th Street, New York, New York, for the following purposes:

1. To elect nine members of the Board of Directors to serve for the ensuing year and until their respective successors are duly elected and qualified.
2. To ratify the appointment of Deloitte & Touche LLP as independent auditor for the fiscal year ending December 31, 2008.
3. To approve an amendment and restatement of the Scientific Games Corporation 2003 Incentive Compensation Plan that would, among other things, increase the number of shares available for awards by three million shares.
4. To consider and act upon any other matter that may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on April 15, 2008 are entitled to receive notice of and to vote at the meeting and any adjournment thereof. A list of the holders will be open to the examination of stockholders for ten days prior to the date of the meeting, between the hours of 9:00 a.m. and 5:00 p.m., at the office of the Secretary of the Company at 750 Lexington Avenue, 25th Floor, New York, New York, and will be available for inspection at the meeting itself.

Whether you plan to be personally present at the meeting or not, we encourage you to submit your vote by proxy as soon as possible.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on June 10, 2008:

The Proxy Statement and 2007 Annual Report are available through the Investor Information link on our website at *www.scientificgames.com* or *through www.proxyvote.com*

By Order of the Board of Directors

Ira H. Raphaelson
Vice President, General Counsel and Secretary

Dated: April 29, 2008

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SCIENTIFIC GAMES CORPORATION
750 Lexington Avenue, 25th Floor
New York, New York 10022

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Scientific Games Corporation ("Scientific Games," the "Company," "we" or "us") of proxies to be voted at the Annual Meeting of Stockholders to be held on Tuesday, June 10, 2008, at 10:30 a.m. at the Metropolitan Club, 1 East 60th Street, New York, New York, and any adjournment or postponement of the meeting, for the purposes set forth in the Notice of Annual Meeting of Stockholders.

Notice and Access to Proxy Materials

We expect our proxy materials, including this Proxy Statement and our 2007 Annual Report, to be made available to stockholders on or about April 29, 2008 through the Investor Information link on our website at *www.scientificgames.com* or through *www.proxyvote.com*. In accordance with recently adopted rules of the Securities and Exchange Commission ("SEC"), most stockholders will not receive printed copies of these proxy materials unless they request them. Instead, most stockholders will receive by mail a "Notice Regarding the Availability of Proxy Material" that contains instructions as to how they can view our materials online, request copies be sent to them by mail or electronically by email and as to how they can vote online (the "Notice").

Stockholders Entitled to Vote

All stockholders of record at the close of business on April 15, 2008 are entitled to vote at the meeting. At the close of business on April 15, 2008, a total of 92,588,133 shares of common stock were outstanding. Each share is entitled to one vote on all matters that properly come before the meeting.

Voting Procedures

You can vote your shares by proxy without attending the meeting. You may vote your shares by proxy over the Internet by following the instructions provided in the Notice, or, if you receive printed proxy materials, you can also vote by mail or telephone pursuant to instructions provided on the proxy card. If you are voting over the Internet or by telephone, you will need to provide the control number that is printed on the Notice or proxy card that you receive.

If you are the record holder of your shares, you may also vote your shares in person at the meeting. If you are not the record holder of your shares (*i.e.*, they are held in "street" name by a broker, bank or other nominee), you must first obtain a proxy issued in your name from the record holder giving you the right to vote the shares at the meeting.

Voting of Proxies

All valid proxies received prior to the meeting will be voted in accordance with the instructions specified by the stockholder. If a proxy card is returned without instructions, the persons named as proxy holders on your proxy card will vote in accordance with the recommendations of the Board, which are as follows:

FOR election of the nominated directors (Proposal 1);

FOR ratification of the appointment of the independent auditor (Proposal 2); and

FOR approval of the amended and restated Scientific Games Corporation 2003 Incentive Compensation Plan (Proposal 3).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

Changing Your Vote

A proxy may be revoked at any time prior to its being voted by delivering written notice to the Secretary of the Company, by delivering a properly executed later-dated proxy (including over the Internet or by telephone), or by voting in person at the meeting.

Quorum

The presence, in person or by proxy, of the stockholders of a majority of the shares entitled to vote at the meeting constitutes a quorum for the transaction of business.

Vote Required

Assuming a quorum is present, directors will be elected by a plurality of the votes cast in person or by proxy at the meeting.

The proposal to ratify the appointment of the independent auditor requires the affirmative vote of a majority of the votes cast in person or by proxy at the meeting.

The proposal to approve the amended and restated Scientific Games Corporation 2003 Incentive Compensation Plan requires the affirmative vote of a majority of the votes cast in person or by proxy at the meeting.

Effect of Abstentions

If you vote "abstain" (rather than vote "for" or "against") with respect to a proposal, your shares will count as present for purposes of determining whether a quorum is present but will have the effect of a negative vote on matters other than the election of directors.

Effect of Broker Non-Votes

If any broker "non-votes" occur at the meeting with respect to your shares, the broker "non-votes" will count for purposes of determining whether a quorum is present but not for purposes of determining the number of votes cast with respect to a particular proposal. A broker "non-vote" occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power on that item and has not received instructions from the owner. Brokers have discretionary voting power under the rules governing brokers to vote without instructions from the beneficial owner on certain "routine" items such as the election of directors and the ratification of the appointment of the independent auditor (Proposals 1 and 2) and, accordingly, your shares may be voted by your broker on Proposals 1 and 2.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees for Election

The Board of Directors has nominated for election to the Board the nine persons named below to serve for a one-year term and until their successors have been duly elected and qualified or until their earlier death, resignation or removal. Four of the nominees, Messrs. Ronald O. Perelman, Barry F. Schwartz, Gerald J. Ford and J. Robert Kerrey, were designated for election to the Board by MacAndrews & Forbes Holdings Inc., our largest stockholder, pursuant to its rights under a stockholders' agreement with us (discussed more fully below). All of the nominees are presently directors of the Company.

The Board recommends that you vote in favor of the election of each of the nominees named below as directors of the Company for the ensuing year, and the persons named as proxies in the enclosed proxy will vote the proxies received by them for the election of each of the nominees unless otherwise specified on those proxies. All of the nominees have indicated a willingness to serve as directors, but if any nominee becomes unavailable to serve before the election, proxies may be voted for a substitute nominee selected by the Board.

The name, age, business experience and certain other information regarding each of the nominees for director are set forth below.

Name	Age	Position with the Company	Director Since
A. Lorne Weil	62	Chairman and Chief Executive Officer[(1)]	1989
Peter A. Cohen	61	Director and Vice Chairman	2000
Gerald J. Ford	63	Director	2005
J. Robert Kerrey	64	Director	2008
Ronald O. Perelman	65	Director	2003
Michael J. Regan	66	Director	2006
Barry F. Schwartz	59	Director	2003
Eric M. Turner	52	Director	2002
Joseph R. Wright, Jr.	69	Director and Vice Chairman[(1)]	2004

(1) On April 29, 2008, we announced that Mr. Weil had advised us that he would be relinquishing the role of Chief Executive Officer effective January 1, 2009 but continue to serve as Chairman through at least 2011. We also announced that Mr. Wright will become Vice Chairman effective May 1, 2008 and succeed Mr. Weil as Chief Executive Officer effective January 1, 2009, as discussed more fully below under the section titled "Director Compensation."

A. Lorne Weil has been Chairman of our Board since October 1991 and our Chief Executive Officer since April 1992. Mr. Weil also served as our President from August 1997 to June 2005. Mr. Weil was President of Lorne Weil, Inc., a firm providing strategic planning and corporate development services to high technology industries, from 1979 to November 1992. Previously, Mr. Weil was Vice President of Corporate Development at General Instrument Corporation, working with wagering and cable systems.

Peter A. Cohen has been Vice Chairman of our Board since February 2003. Mr. Cohen is a founding partner and principal of Ramius Capital Group, LLC, a private investment management firm formed in 1994. From November 1992 to May 1994, Mr. Cohen was Vice Chairman and a director of Republic New York Corporation, as well as a member of its executive management committee. Mr. Cohen was also Chairman of Republic's subsidiary, Republic New York Securities Corporation. Mr. Cohen was Chairman of the Board and Chief Executive Officer of Shearson Lehman Brothers from 1983 to 1990. Mr. Cohen is a director of L-3 Communications Holdings, Inc.

Gerald J. Ford has been a financial institutions entrepreneur and private investor involved in numerous mergers and acquisitions of private and public sector financial institutions over the past 30 years. Mr. Ford served as Chairman of the Board and Chief Executive Officer of Golden State Bancorp Inc. from September 1998 until its merger with Citigroup Inc. in November 2002. Mr. Ford is Chairman of the Board of First Acceptance Corporation and a director of Freeport-McMoRan Copper & Gold Inc., McMoRan Exploration Co. and Hilltop Holdings Inc. (formerly Affordable Residential Communities, Inc.).

J. Robert Kerrey has served as the President of The New School in New York City since January 2001. From 1988 to 2000, he served as United States Senator from Nebraska. During that period, he was a member of numerous congressionally-chartered commissions and Senate committees, including the Senate Finance and Appropriations Committees and the Senate Select Committee on Intelligence. Prior to that time, he served as Governor of Nebraska from 1982 to 1987. Mr. Kerrey is a director of Jones Apparel Group, Inc., Tenet Healthcare Corporation and Genworth Financial, Inc.

Ronald O. Perelman has been Chairman of the Board and Chief Executive Officer of MacAndrews & Forbes Holdings Inc., a diversified holding company, and various affiliates since 1980. Mr. Perelman is also Chairman of the Board of M & F Worldwide Corp., Revlon Consumer Products Corporation and Revlon, Inc. Mr. Perelman is a member of the Board of Managers of Allied Security Holdings LLC.

Michael J. Regan is a former Vice Chairman and Chief Administrative Officer of KPMG LLP and was the lead audit partner for many Fortune 500 companies during his 40-year tenure with KPMG. Mr. Regan is a member of the Board of Managers of Allied Security Holdings LLC and a director of Citadel Broadcasting Corporation.

Barry F. Schwartz has been Executive Vice Chairman and Chief Administrative Officer of MacAndrews & Forbes Holdings, Inc. and various affiliates since October 2007. Prior to that, he was Executive Vice President and General Counsel of MacAndrews & Forbes and various affiliates since 1993 and was Senior Vice President of MacAndrews & Forbes and various affiliates from 1989 to 1993. Mr. Schwartz has also served as President and Chief Executive Officer of M & F Worldwide Corp. since September 2007. Mr. Schwartz is also a director (or member of the Board of Managers, as applicable) of Allied Security Holdings LLC, Harland Clarke Holdings Corp., Revlon Consumer Products Corporation and Revlon, Inc.

Eric M. Turner has been an independent management consultant and advisor since 2003. Mr. Turner served as Senior Vice President of State Street Corporation, a financial services company, from 1996 to 2003. Mr. Turner was the executive director of the Massachusetts State Lottery Commission from 1992 to 1995. During his time at the Lottery Commission, Mr. Turner was elected to positions of Treasurer and Secretary of the North American Association of State and Provincial Lotteries, a professional association of North American lotteries. In 1991, Mr. Turner served as Deputy Treasurer of the Commonwealth of Massachusetts. Prior to that time, he was employed with Drexel Burnham Lambert for approximately six years, last serving as Corporate Vice President, Municipal Finance Department, from 1989 to 1990.

Joseph R. Wright, Jr. will become our Vice Chairman effective as of May 1, 2008. From July 2006 through April 2008, he served as Chairman of Intelsat, Ltd., the world's largest provider of satellite services, and he served as Chief Executive Officer of PanAmSat Corporation from August 2001 until it was combined with Intelsat in July 2006. Mr. Wright was the Chairman of GRC International, Inc. from 1996 to March 2000. He was Executive Vice President and Vice Chairman of W.R. Grace & Co. from 1989 to 1994. Mr. Wright was a member of President Reagan's Cabinet as Director of the White House Office of Management and Budget (OMB) from 1988 to 1989 and was Deputy Director of OMB from 1982 to 1988. Mr. Wright is a director of Terremark Worldwide, Inc. and Federal Signal Corporation.

Designees of MacAndrews & Forbes Holdings Inc.

Messrs. Perelman, Schwartz, Ford and Kerrey were designated for election to the Board by MacAndrews & Forbes Holdings Inc. pursuant to its rights under a stockholders' agreement with us dated September 6, 2000, as supplemented by an agreement dated June 26, 2002, a letter agreement dated October 10, 2003 and a letter agreement dated February 15, 2007. The stockholders' agreement was originally entered into with holders of our Series A Convertible Preferred Stock in connection with the initial issuance of such Preferred Stock and provides for, among other things, the right of the holders to designate up to four members of our Board based on their ownership of Preferred Stock or the common stock issued upon conversion thereof. All of the Preferred Stock was converted into common stock in August 2004. MacAndrews & Forbes, which owned approximately 92% of the Preferred Stock prior to conversion and approximately 25% of our outstanding common stock following conversion, has the right to designate up to four directors based on its level of share ownership. The percentages that must be maintained in order to designate directors are as follows: (a) 20% to designate four directors; (b) 16% to designate three directors; (c) 9% to designate two directors; and (d) 4.6% to designate one director. Such percentages, in each case, are to be determined based on our fully diluted common stock subject to certain exclusions of common stock or other securities that may be issued in the future.

THE BOARD RECOMMENDS A VOTE "FOR" EACH OF THE NINE NOMINEES

Information about the Board of Directors and Committees

Director Independence. The Board adopted Director Independence Guidelines as a basis for determining that individual directors are independent under the standards of the Nasdaq Stock Market. This determination, to be made annually, helps assure the quality of the Board's oversight of management and reduces the possibility of damaging conflicts of interest. Under these standards, a director will not qualify as independent if:

(1) the director has been employed by the Company (or any subsidiary) at any time within the past three years;

(2) the director has an immediate family member who has been employed as an executive officer of the Company (or any subsidiary) at any time within the past three years;

(3) the director or an immediate family member of the director has accepted any compensation from the Company (or any subsidiary) in excess of $100,000 during any period of 12 consecutive months within the past three years other than (a) for Board or Board committee service, (b) in the case of the family member, as compensation for employment other than as an executive officer or (c) benefits under a tax-qualified retirement plan, or non-discretionary compensation;

(4) the director or an immediate family member of the director is a partner, controlling shareholder or executive officer of an organization which made payments to, or received payments from, the Company for property or services in the current or in any of the past three years that exceed the greater of 5% of the recipient's consolidated gross revenues or $200,000, other than (a) payments arising solely from investments in the Company's securities or (b) payments under non-discretionary charitable contribution matching programs;

(5) the director or an immediate family member of the director is employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company served on the compensation committee of such other entity; or

(6) the director or an immediate family member of the director is a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

In applying these standards, the Board determined that each of the eight non-employee directors qualify as independent directors and none has a business or other relationship that would interfere with the director's exercise of independent judgment. In making the determination of Mr. Wright's independence, the Board considered the Company's relationship with Intelsat, Ltd., a provider of satellite and related services to the Company under certain contracts that were entered into in the ordinary course of business prior to Mr. Wright becoming its Chairman of the Board in July 2006. The amounts received by Intelsat during 2007 were approximately $248,000 (which represents approximately 0.01% of Intelsat's 2007 consolidated revenues). The Board determined that Mr. Wright does not have a direct or indirect material interest in these arrangements and that the arrangements do not interfere with the exercise of independent judgment by Mr. Wright. The Board determined that Mr. Wright would no longer qualify as an independent director upon his expected employment by the Company.

Two directors passed away during 2007 (Howard Gittis and Sir Brian Wolfson), each of whom had qualified as an independent director.

The full text of the Board's Director Independence Guidelines can be accessed through the Corporate Governance link on our website at *www.scientificgames.com*.

Code of Ethics. The Board of Directors adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees. The Code sets forth fundamental principles of integrity and business ethics and is intended to ensure ethical decision making in the conduct of professional responsibilities. Among the areas addressed by the Code are standards concerning conflicts of interest, confidential information and compliance with laws, regulations and policies. The full text of the Code can be accessed through the Corporate Governance link on our website at *www.scientificgames.com*.

Corporate Governance Guidelines. The Board of Directors adopted Corporate Governance Guidelines that outline the structure, role and functioning of the Board and address various governance matters including director independence, the Board selection process, length of Board service, Board meetings and executive sessions of independent directors, Board and Committee performance evaluations and management succession planning. The full text of the Guidelines can be accessed through the Corporate Governance link on our website at *www.scientificgames.com*.

Lead Director Role. The Board has designated Mr. Cohen, who serves as Vice Chairman of the Board and as Chairman of the Executive and Finance Committee of the Board, as the lead director to preside over executive sessions of the independent directors. The responsibilities of the lead director include facilitating communication between the independent directors and the Chairman and coordinating the activities of the independent directors. Mr. Cohen also provides assistance to the Board and the Committees of the Board in their evaluations of management's performance and he carries out other duties that the Board assigns to him from time to time in areas of governance and oversight.

Board Meetings. The Board of Directors held a total of eight meetings during 2007 including four executive sessions at which no members of management were present. During 2007, all directors attended at least 75% of the total number of meetings of the Board and Committees of the Board on which they served during their term on such Committees.

Board Committees. The Board of Directors has five Committees: the Audit Committee; the Compensation Committee; the Compliance Committee; the Executive and Finance Committee; and the Nominating and Corporate Governance Committee. All Committees are comprised solely of independent directors with the exception of the Executive and Finance Committee. The Board has approved charters

for every Board Committee, which can be accessed through the Corporate Governance link on our website at *www.scientificgames.com*. The current membership for each Committee is as follows:

Audit Committee	Compensation Committee[(1)]	Compliance Committee	Executive and Finance Committee	Nominating and Corporate Governance Committee[(1)]
Michael J. Regan (Chair)	Peter A. Cohen (Chair)	Barry F. Schwartz (Chair)	Peter A. Cohen (Chair)	Gerald J. Ford (Chair)
Barry F. Schwartz	J. Robert Kerrey	Gerald J. Ford	Ronald O. Perelman	J. Robert Kerrey
Eric M. Turner	Barry F. Schwartz	Eric M. Turner	A. Lorne Weil	Michael J. Regan

(1) Mr. Wright ceased serving on the Compensation and Nominating and Corporate Governance Committees at the end of April 2008 in anticipation of his employment by the Company. At that time, Messrs. Kerrey and Schwartz joined the Compensation Committee (replacing Messrs. Wright and Turner), Mr. Regan joined the Nominating and Corporate Governance Committee and Mr. Ford became Chairman of the Nominating and Corporate Governance Committee (replacing Mr. Wright).

Audit Committee. The Audit Committee is responsible for hiring the Company's independent auditor and for overseeing the accounting, auditing and financial reporting processes of the Company. In the course of performing its functions, the Audit Committee reviews, with management and the independent auditor, the Company's internal accounting controls, the annual financial statements, the report and recommendations of the independent auditor, the scope of the audit, and the qualifications and independence of the auditor. The Board has determined that each member of the Audit Committee is independent under the listing standards of the Nasdaq Stock Market and that Mr. Regan qualifies as an "audit committee financial expert" under the rules of the SEC. The Audit Committee held seven meetings during 2007.

Compensation Committee. The Compensation Committee sets the compensation of the Chief Executive Officer and other senior executives of the Company, administers the equity incentive plans and executive compensation programs of the Company, determines eligibility for, and awards under, such plans and programs, and makes recommendations to the Board with regard to the adoption of new employee benefit plans and equity incentive plans and with respect to the compensation program for non-employee directors. The Board has determined that each member of the Compensation Committee is independent under the listing standards of the Nasdaq Stock Market. The Compensation Committee held seven meetings during 2007.

Compliance Committee. The Compliance Committee is responsible for providing oversight and guidance to the Company's compliance program with respect to compliance with laws and regulations applicable to the business of the Company, including gaming laws, and with respect to compliance with the Code of Conduct by employees, officers, directors and other representatives of the Company. The Board has determined that each member of the Compliance Committee is independent under the listing standards of the Nasdaq Stock Market. The Compliance Committee held 12 meetings during 2007.

Executive and Finance Committee. The Executive and Finance Committee has broad authority to act on behalf of the Board in the management of the business and affairs of the Company between regular meetings of the Board and assists the Board in implementing Board policy decisions. The Executive and Finance Committee held three meetings during 2007.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for identifying individuals who are qualified to become directors, recommending nominees for membership on the Board and on committees of the Board, reviewing and recommending corporate governance principles, procedures and practices and overseeing the annual self-assessment of the Board and its committees. The Board has determined that each member of the Committee is independent under the listing standards of the Nasdaq Stock Market. The Committee held five meetings during 2007.

The Nominating and Corporate Governance Committee does not have a set of minimum, specific qualifications that must be met by a candidate for director and will consider individuals suggested as candidates by stockholders. A stockholder wishing to propose a nominee for director should submit a recommendation in writing to the Company's Secretary at least 120 days before the mailing date for proxy material applicable to the annual meeting for which such nomination is proposed for submission, indicating the nominee's qualifications and other relevant biographical information and providing confirmation of the nominee's consent to serve as a director. The Committee will review the candidate's background, experience and abilities, and the contributions the candidate can be expected to make to the collective functioning of the Board and the needs of the Board at the time. In prior years, candidates have been identified through recommendations made by directors, the Chief Executive Officer and other third parties. The Committee anticipates that it would use these sources as well as stockholder recommendations to identify candidates in the future.

Stockholder Communications with Directors. Stockholders may communicate with the Board of Directors or an individual director by sending a letter to the Board or to a director's attention care of the Secretary of the Company at Scientific Games Corporation, 750 Lexington Avenue, 25th Floor, New York, New York, 10022. The Secretary will open, log and deliver all such correspondence (other than advertisements, solicitations or communications that contain offensive or abusive content) to directors on a periodic basis, generally in advance of each Board meeting.

Attendance at Stockholders' Meetings. The Company encourages directors to attend the annual stockholders' meeting. Last year, six of the nine directors then serving on the Board attended the annual meeting.

Director Compensation

The compensation program for non-employee directors consists of cash retainers, meeting fees and stock awards. Directors receive annual retainers of $50,000, meeting fees of $2,000 for each Board and Committee meeting attended (except that the Executive and Finance Committee does not carry meeting fees) and awards of restricted stock units at the beginning of each year having a grant date value of $110,000 and a five-year vesting schedule (provided the director satisfied the Board's attendance requirements discussed below). In addition, directors who chair a Committee receive additional annual retainers in the amount of $10,000 except that the Audit Committee Chair receives $20,000 and Mr. Cohen receives $250,000 for his service as Vice Chairman of the Board (he does not receive an additional retainer for his service as Chair of the Executive and Finance Committee or Chair of the Compensation Committee). New directors receive stock options for 50,000 shares upon joining the Board which have a five-year vesting schedule and an exercise price equal to the fair market value of our common stock at the time of grant. Awards of stock options and restricted stock units are subject to forfeiture if a director leaves the Board prior to the scheduled vesting date except that such awards would accelerate in full upon a director's death or disability. Directors who are employed by the Company do not receive any additional compensation for their services as a director.

The Board imposes a minimum meeting attendance requirement in connection with the annual awards of restricted stock units such that only directors who have attended at least 75% of the total number of meetings held by the Board and Committees on which they served in the prior year are eligible to receive an award, except that a new director with less than six months of service in the prior year is not subject to such threshold with respect to the first grant made after becoming a director. All directors satisfied the attendance requirements applicable for the 2007 awards (other than Mr. Kerrey, who joined the Board effective January 1, 2008 and as to whom the 2007 attendance requirement did not apply).

Directors can elect to defer their cash compensation into a non-qualified deferred compensation plan throughout their tenure on the Board or for certain specified deferral periods. The amounts deferred under the plan are measured by investment options that the participants may select from a variety of

mutual funds of various investment categories offered under the plan. The plan for director deferrals is operated in conjunction with the deferred compensation plan for executives discussed below. The Company does not guarantee any minimum return on investments and participants receive their deferrals and related earnings following the end of the specified deferral period or earlier if they leave the Board.

The table below shows the compensation paid to non-employee directors for 2007.

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	Option Awards ($)[3]	All Other Compensation ($)	Total ($)
Peter A. Cohen	318,000	422,098	137,315		877,413
Gerald J. Ford	90,000	43,862	143,566		277,428
Howard Gittis[4]	73,000	208,193	58,919		340,112
Ronald O. Perelman	66,000	53,866	58,919		178,785
Michael J. Regan	100,000	21,864	132,500		254,364
Barry F. Schwartz	112,000	53,866	58,919		224,785
Eric M. Turner	110,000	53,866			163,866
Brian G. Wolfson[4]	32,833	208,193	32,931		273,957
Joseph R. Wright, Jr.	98,000	53,866	143,621		295,487

(1) Reflects cash retainers and meeting fees earned by directors for services provided during 2007.

(2) Reflects the compensation cost recognized by us for financial statement reporting purposes in 2007 for grants of restricted stock awarded to directors in 2007 and prior years. The cost was computed in accordance with Statement of Financial Accounting Standards No. 123R, which is based on the fair value of the award at the time of grant. The fair value for the awards was determined by multiplying the number of shares subject to the award by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. For a discussion of valuation assumptions, see Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

(3) Reflects the compensation cost recognized by us for financial statement reporting purposes in 2007 for grants of stock options awarded to directors in 2007 and prior years. The cost was computed in accordance with Statement of Financial Accounting Standards No. 123R, which is based on the fair value of the award at the time of grant using a Black-Scholes option pricing model. For a discussion of valuation assumptions, see Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

(4) Messrs. Gittis and Wolfson passed away during 2007. The fees shown as earned by them for 2007 reflect payment of retainers through the month of their death and the amounts shown as stock awards and option awards for them reflect the acceleration of the unvested portion of their awards as of the date of their death.

The table below shows the aggregate number of stock options and restricted stock units held by non-employee directors as of December 31, 2007.

Name	Stock Options (in shares)	Restricted Stock Units
Peter A. Cohen	100,000	60,832
Gerald J. Ford	50,000	6,815
Ronald O. Perelman	50,000	7,232
Michael J. Regan	50,000	3,612
Barry F. Schwartz	50,000	7,232
Eric M. Turner		7,232
Joseph R. Wright, Jr.	50,000	7,232

All stock options shown above were awarded with a ten-year term and an exercise price equal to the fair market value of our common stock on the date of grant. No stock options were awarded during 2007. The grants made during 2007 consisted of formula awards of 3,612 restricted stock units on the first business day of the year having a fair value at grant of $109,985. These awards have a five-year vesting schedule, with one-fifth vesting on each of the first five anniversaries of the date of grant, and the compensation cost will be expensed over the vesting period.

Compensation Arrangement with Mr. Wright

The Company expects to enter into an employment agreement with Mr. Wright, which will have a term ending December 31, 2011 (subject to extension for an additional year at the end of the term and each anniversary thereof unless notice of non-renewal is given at least 90 days prior to the scheduled expiration date). Under the agreement, Mr. Wright will become executive Vice Chairman of the Board of Directors of the Company effective May 1, 2008 and he will succeed Mr. Weil as the Chief Executive Officer of the Company effective January 1, 2009.

Under the agreement, Mr. Wright will receive an annual base salary of $1 million (pro rated for 2008), which will increase to $1.25 million for 2009 and $1.5 million for 2010. Mr. Wright will also have the opportunity to earn up to 100% of his base salary as incentive compensation upon achievement of target level performance goals for a given year and the opportunity to earn up to 200% of his base salary upon achievement of maximum performance goals for a given year, provided that he will receive a minimum of $666,667 for 2008 (100% of his pro rata base salary) and $500,000 for 2009 as incentive compensation.

The Company awarded sign-on equity awards to Mr. Wright on April 15, 2008 in contemplation of his employment consisting of (i) 500,000 options with an exercise price of $25.69 per share (representing the market value of our stock on the date of grant) and a ten-year term and (ii) 220,000 restricted stock units, which awards have a four-year vesting schedule (one-quarter vesting on each of the first four anniversaries of the grant date). The awards are subject to forfeiture in the event that Mr. Wright fails to execute an employment agreement with the Company or to the extent the Company's stockholders do not approve an amendment to the 2003 Incentive Compensation Plan or a new equity compensation plan that provides for a sufficient increase in the number of shares of our common stock available for these grants by the applicable vesting date (in the case of restricted stock units) or the date of exercise (in the case of options). In addition, beginning in 2009, Mr. Wright will be entitled to receive annual long-term incentive awards (payable in the form of equity or cash) in the discretion of the Compensation Committee (but commensurate with his position as Chief Executive Officer) in accordance with the Company's applicable plans and programs for senior executives of the Company, provided that he will receive a minimum of 50,000 options and 50,000 restricted stock units in each of 2009 and 2010, which will vest in four equal installments on each of the first four anniversaries of the date of grant. The 2009 and 2010 equity awards are also subject to the approval of the Company's stockholders of an amendment to the 2003 Incentive Compensation Plan (or a new equity compensation plan) that provides for a sufficient increase in the number of shares of common stock of the Company available for these awards. If such shares are not available, Mr. Wright would instead receive cash-based awards that provide him with equivalent value of the equity awards.

Mr. Wright will be entitled to participate in all perquisites programs that are made generally available to the Company's other senior executives (subject to the Company's right to at any time amend or terminate any such plan or program). Mr. Wright will have use of the Company's fractional ownership aircraft for personal use that does not interfere with business use, and will reimburse the Company for such personal use based on the Company's out-of-pocket costs and as otherwise provided in the agreement. The Company will provide Mr. Wright with the use of an automobile and driver.

If Mr. Wright's employment is terminated by the Company without "cause" (which, for this purpose, includes the Company's election not to extend the term) or by Mr. Wright for "good reason" (as such

terms will be defined in the agreement), then, among other things, he would be entitled to receive: (i) a pro rata portion of the bonus for the then-current fiscal year that would have been payable to Mr. Wright had he remained employed during the entire year; (ii) an amount equal to two and one-half (2.5) times the sum of his base salary and target bonus for the year of termination; (iii) full vesting of his equity awards, which in the case of options would remain exercisable until their scheduled expiration dates; and (iv) reimbursement of monthly COBRA premiums for up to 18 months if Mr. Wright elects to continue medical coverage under the Company's group health plan in accordance with COBRA. If Mr. Wright's employment is terminated by the Company without "cause" or by him for "good reason" in connection with a "change in control" (as such term will be defined in the agreement), he would be entitled to receive the benefits described in the preceding sentence, except that the amount described in clause (ii) above would be equal to three (3) times the sum of his base salary and target bonus for the year of termination. In the event of Mr. Wright's death or if he is terminated by reason of "total disability" (as such term will be defined in the agreement), he would be entitled to receive, among other things, a pro rata portion of his bonus for the then-current fiscal year and an amount equal to the sum of his base salary and target bonus for such year. In addition, if Mr. Wright resigns his employment on or after the third anniversary of the agreement (May 1, 2011), he would receive an acceleration of the vesting of his sign-on equity awards and the minimum equity awards described above (which in the case of options, would remain exercisable until their scheduled expiration dates).

Mr. Wright's employment agreement also contains, among other things, covenants imposing on him certain obligations with respect to confidentiality and proprietary information, and restricting his ability to engage in certain activities in competition with the Company during his employment and for a period of 24 months after termination.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who beneficially own more than ten percent of our common stock, to file initial reports of ownership and reports of changes in their ownership with the SEC. Based on a review of the copies of the reports that our directors, officers and ten percent holders filed with the SEC and on the representations made by such persons, we believe all applicable filing requirements were met during fiscal 2007 except that an amendment to a Form 3 was filed by Peter A. Cohen, one of our directors, to report the indirect beneficial ownership of shares held by three trusts that was inadvertently omitted in the original report and amendments to two Form 4s were filed by Mr. Cohen to report two dispositions by each of these three trusts that were inadvertently omitted in the original reports.

SECURITY OWNERSHIP

The following table sets forth certain information as of March 31, 2008 as to the security ownership of each person known to us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, each of our directors, each of our named executive officers, and all of our directors and executive officers as a group. Except as otherwise indicated, the stockholders listed in the table below have sole voting and investment power with respect to the shares indicated.

	Shares of Common Stock	
	Number[(1)]	**Percent[(1)]**
MacAndrews & Forbes Holdings Inc. 35 East 62nd Street New York, NY 10065	25,985,737[(2)]	28.07%
RS Investment Management Co. LLC 388 Market Street San Francisco, CA 94111	11,363,020[(3)]	12.27%
Baron Capital Management, Inc. 767 Fifth Avenue New York, NY 10153	5,286,060[(4)]	5.71%
A. Lorne Weil	2,214,335[(5)]	2.35%
Peter A. Cohen	1,399,919[(6)]	1.51%
Gerald J. Ford	127,323	*
J. Robert Kerrey		
Ronald O. Perelman	26,041,092[(7)]	28.11%
Michael J. Regan	20,722	*
Barry F. Schwartz	60,355	*
Eric M. Turner	1,940[(8)]	*
Joseph R. Wright, Jr.	41,074	*
DeWayne E. Laird	83,051	*
Michael R. Chambrello	271,049	*
Ira H. Raphaelson	112,793	*
Steven M. Saferin	13,574	*
William J. Huntley[(9)]	77,025	*
All directors and executive officers as a group (consisting of 17 persons)	30,653,052(10)	32.21%

*
Represents less than 1% of the outstanding shares of common stock.

(1)
In accordance with SEC rules, this column includes shares that a person has a right to acquire within 60 days of March 31, 2008 through the exercise or conversion of stock options, restricted stock units or other securities. Such securities are deemed to be outstanding for the purpose of calculating the

percentage of outstanding securities owned by such person but are not deemed to be outstanding for the purpose of calculating the percentage owned by any other person. The securities reported for the directors

and named executive officers listed in the table above include shares subject to the following awards as to which the equivalent number of underlying shares may be acquired through exercise or conversion within 60 days of March 31, 2008:

Mr. Weil, 1,747,433 options; Mr. Cohen, 25,000 options; Mr. Ford, 25,000 options; Mr. Perelman, 50,000 options; Mr. Regan, 20,000 options; Mr. Schwartz, 50,000 options; Mr. Wright, 37,500 options; Mr. Laird, 54,603 options and 12,000 restricted stock units; Mr. Chambrello, 225,375 options; Mr. Raphaelson, 84,534 options; Mr. Saferin, 13,574 options; and Mr. Huntley, 55,227 options.

(2) Consists of 70,647 shares held by MacAndrews & Forbes Holdings Inc. and 25,915,090 shares held by SGMS Acquisition Corporation, a holding company owned by MacAndrews & Forbes Holdings Inc., whose chairman, chief executive officer and sole stockholder is Mr. Perelman, with respect to which 24,887,500 of the shares are subject to pledge agreements. A Schedule 13D was jointly filed with the SEC by MacAndrews & Forbes Holdings Inc. and SGMS Acquisition Corporation on November 26, 2003, and amended, most recently, on February 16, 2007 and a Form 4 was most recently filed with the SEC by Mr. Perelman on January 4, 2008.

(3) Based on an amendment to a Schedule 13G jointly filed with the SEC on February 8, 2008 by RS Investment Management Co. LLC, a registered investment adviser, and its parent companies, Guardian Investor Services LLC, a registered investment adviser, and Guardian Life Insurance Company of America, a life insurance company.

(4) Based on a Schedule 13G jointly filed with the SEC on February 14, 2008 by BAMCO, Inc. and Baron Capital Management, Inc., registered investment advisors, their parent company, Baron Capital Group, Inc., and Ronald Baron, who owns a controlling interest in Baron Capital Group, Inc.

(5) Includes 214,505 shares held for Mr. Weil's deferred compensation account by a grantor trust established in connection with the Company's deferred compensation plan and 125,600 shares subject to a pledge agreement. Mr. Weil's reported holdings do not include 357,299 shares held in family trusts for which he does not serve as trustee and disclaims beneficial ownership.

(6) Includes 5,900 shares held by members of Mr. Cohen's immediate family, 15,000 shares held by trusts for members of his immediate family for which Mr. Cohen serves as co-trustee, 1,100,000 shares held by entities of which Ramius LLC (or an affiliate) acts as an investment advisor and 74,825 shares held by third party accounts managed by Ramius Securities LLC. Mr. Cohen is one of four managing members of C4S & Co., LLC, the sole managing member of Ramius, LLC. Mr. Cohen disclaims beneficial ownership of the securities held by affiliates of Ramius LLC and the third party accounts except to the extent of his pecuniary interest therein.

(7) Includes the 25,985,737 shares reported in footnote 2 above which may be deemed to be beneficially owned by Mr. Perelman, the chairman, chief executive officer and sole stockholder of MacAndrews & Forbes Holdings Inc. Mr. Perelman's address is 35 East 62nd Street, New York, NY 10065.

(8) These shares are pledged under the terms of a margin account.

(9) Mr. Huntley was among the "named executive officers" for 2007 but is no longer an executive officer.

(10) Includes 2,553,600 shares issuable upon exercise of stock options and 16,000 shares issuable upon vesting of restricted stock units.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Oversight of Executive Compensation Program

Scientific Games' executive compensation program is administered by the Compensation Committee of the Board of Directors, which is referred to in this section as the "Committee." The Committee is responsible for determining the compensation of the Company's Chief Executive Officer and other executive officers of the Company and for overseeing the Company's executive compensation and benefits programs. The Committee works directly with our Chief Human Resources Officer on the compensation program and receives recommendations from the Chief Executive Officer on compensation for other executive officers.

There are currently nine executive officers of Scientific Games and these individuals have a broad array of responsibilities and authority in the Company. The six individuals identified in the Summary Compensation Table below, including the Chief Executive Officer and the Chief Financial Officer, are collectively referred to in this Proxy Statement as the "named executive officers."

Compensation Objectives

The objectives of the executive compensation program are to attract and retain executive talent, to foster excellent performance by executives whose contributions drive the success of the Company and to create value for shareholders. The program is structured to provide a compensation package that is competitive with the marketplace, offers rewards to executives based on Company and individual performance, encourages career service and aligns the interests of management and stockholders through incentives that encourage annual and long-term results.

Components of Compensation Program

The principal components of the Company's compensation program consist of base salaries, annual performance-based incentive compensation, long-term incentive compensation and employment agreements that include severance and change of control arrangements.

The following is a description of the Company's compensation elements and the objectives they are designed to support:

Element of Compensation	Rationale	Linkage to Compensation Objectives
Base Salary	Provide fixed level of compensation	Attract and retain executive talent
Annual Incentive Compensation (cash bonuses)	Combined with salary, the target level of annual incentive compensation provides a market-competitive total cash opportunity Actual annual incentive compensation payout depends on Company and individual performance	Foster excellent business performance Align executive and stockholder interests by linking compensation to the annual performance of the Company Attract and retain executive talent
Long-Term Incentive Compensation (stock options and performance-conditioned restricted stock units)	Target level of long-term incentive compensation provides a market-competitive equity opportunity Vesting of performance-conditioned restricted stock units subject to Company meeting financial performance criteria	Align executive and stockholder interests by linking portion of compensation to long-term Company performance Foster excellent business performance Attract and retain executive talent Encourage career service

Element of Compensation	Rationale	Linkage to Compensation Objectives
Employment Agreements with Severance and Change in Control Provisions	Severance provisions under employment agreements provide benefits to ease an employee's transition due to an unexpected employment termination by the Company due to changes in the Company's employment needs Change in control provisions under employment agreements and equity compensation plans encourage employees to remain focused on the best interests of the Company in the event of rumored or actual fundamental corporate changes	Attract and retain executive talent Encourage career service

The Committee reviews the compensation of the Company's executives on an annual basis, taking into account such factors as competitive compensation levels, the Company's performance and the executive's responsibilities, experience and contributions. The Committee believes that a substantial portion of executive officer compensation should be tied to short-term and long-term Company performance. The Committee periodically reviews the Company's overall executive compensation program against competitive practices and trends with the assistance of an outside compensation consultant, and reviews and analyzes marketplace data for comparable companies provided by such consultant. A significant percentage of executive compensation is designed to be performance-based and varies from year to year based on Company and individual performance.

The Company's compensation policies are generally consistent with respect to the named executive officers, although there are differences in the executive officers' base salary levels, bonus opportunities and equity award opportunities based on the relative responsibilities of the positions, the executive officer's relative importance to the success of the Company and, to some extent, the terms of the executive officers' employment agreements resulting from arm's-length negotiations. For example, the Chief Executive Officer has the highest base salary and bonus and equity award opportunities as a percentage of base salary because the Committee views his position and performance as the most critical to the success of the Company. Similarly, the Chief Operating Officer has the second highest base salary and bonus and equity award opportunities as a percentage of base salary because the Committee views his position and performance as the next most critical to the success of the Company. Differences in severance benefits are largely the result of different terms in employment agreements resulting from arm's-length negotiations.

Base Salary

The salary levels of the Company's executive officers are reviewed on an annual basis in light of the competitive marketplace, the executive officer's responsibilities, experience and contributions and internal equity. Internal equity in this context means ensuring that executives in comparable positions are rewarded comparably. Executive officers are eligible for merit increases to base salary at the time of promotion or other increase in responsibilities and in recognition of individual performance. The Chief Executive Officer submits salary recommendations for each of the other named executive officers to the Committee (with input from the Chief Operating Officer with respect to those executives who directly report to the Chief Operating Officer). The Committee relies to a large extent on the Chief Executive Officer's and the Chief Operating Officer's evaluations of the performance of the other named executive officers.

The named executive officers received salary increases effective January 1, 2007 as shown below:

Executive	Salary Increases	Effective Date	New Salary Rate
Mr. Weil	$ 49,650	01/01/2007	$ 1,549,650
Mr. Chambrello	28,301	01/01/2007	883,301
Mr. Laird	85,722	01/01/2007	625,000
Mr. Raphaelson	50,000	01/01/2007	590,000
Mr. Huntley	35,000	01/01/2007	550,000
Mr. Saferin	50,000	01/01/2007	465,000

The increases for Messrs. Weil and Chambrello reflected an inflation adjustment of approximately 3.31%, which was provided in accordance with the terms of their employment agreements. The increase for Mr. Laird was based on the recommendation of the Chief Executive Officer in light of an assessment of his performance (including his contributions to the completion of the Company's 2006 acquisitions), the importance of his position within the Company and for retention purposes. The increase for Mr. Raphaelson was based on the recommendation of the Chief Executive Officer in light of the expansion of his responsibilities to include government affairs. The increases for Messrs. Huntley and Saferin were based on the recommendation of the Chief Executive Officer in light of the performance of their business units and for internal equity purposes.

The Committee did not approve salary increases for the named executive officers for 2008, except that Messrs. Weil, Chambrello and Laird received an inflation adjustment of approximately 3.66% in accordance with the terms of their employment agreements.

Annual Incentive Compensation

The Company's executive officers are eligible to receive annual cash bonuses under the Company's management incentive compensation program (MICP), which provides bonus opportunities based on the Company's overall performance relative to financial targets approved for a given fiscal year, the financial performance of individual business units of the Company for executives directly involved with the operation of those units, and an assessment of the executive's performance and contribution relative to individual goals and objectives including factors not quantitatively measurable by financial results.

If the financial performance targets are met or exceeded, participants are eligible to receive cash bonuses based on a pre-established target percentage of their base salaries which, for senior executives, ranges from a target percentage of 50% of base salary to 100% of base salary. Actual payments for these executives can vary from 0% up to 200% of the target bonus amount based on Company and individual performance.

The named executive officers had the following bonus opportunities under the MICP for 2007:

Executive	Threshold Bonus Opportunity (as a % of Base Salary)	Target Bonus Opportunity (as a % of Base Salary)	Maximum Bonus Opportunity (as a % of Base Salary)
Mr. Weil	50.0%	100.0%	200.0%
Mr. Chambrello	37.5%	75.0%	150.0%
Mr. Laird	33.4%	66.7%	133.4%
Mr. Raphaelson	33.4%	66.7%	133.4%
Mr. Huntley	33.4%	66.7%	133.4%
Mr. Saferin	33.4%	66.7%	133.4%

The bonus amounts for the named executive officers are determined based on attainment of financial performance targets set for the year subject to the Committee adjusting an award based on individual performance or other factors. If the minimum financial performance targets set for the year are met,

participants are eligible to receive up to 50% of their target bonus. Pro rated amounts up to the target bonus amount may be awarded for achievement between the minimum and target levels and up to two times the target bonus amount for achievement between the target and maximum levels. The target bonus opportunity for business unit executives is weighted one-half for corporate consolidated performance and one-half for business unit performance.

For 2007, the financial performance of the Company and its business units were measured by the attainment of EBITDA targets established for the year. EBITDA was defined as net income plus income tax expense, interest expense, and depreciation and amortization expenses, net of other income and stock compensation expenses, subject to certain adjustments to exclude the impact of unusual, unplanned, non-recurring or extraordinary items or occurrences affecting the Company (such as acquisitions, certain restructuring costs or changes in law or accounting principles). The EBITDA targets set at the beginning of the year for corporate financial performance were $260.6 million as the threshold level (or $252.3 million excluding joint venture earnings), $289.3 million as the target level (or $278.8 million excluding joint venture earnings) and $317.9 million as the maximum level (or $302.2 million excluding joint venture earnings). The results were $321.4 million for the year (excluding EBITDA attributable to the acquisition of Oberthur Gaming Technologies in May 2007 and income resulting from the reversal of a warranty reserve during the fourth quarter of 2007), which exceeded the maximum level due primarily to significantly higher-than-expected earnings attributable to the Company's 20% interest in an Italian joint venture. Excluding earnings from joint ventures, the results were $280.2 million for the year, which represented 100% of the target level of performance and a pro rated portion of the maximum target representing 5.4%. The Committee determined to award bonuses based on the results excluding joint venture earnings in light of the fact that the results for the core (non-joint venture) businesses of the Company did not significantly exceed the target level. The business unit component of the bonuses for Messrs. Huntley and Saferin was based on achieving 100% and 64.5%, respectively, of the target level of performance.

The Committee determined to award bonuses for the year based solely on the financial performance of the Company without exercising discretion to adjust an award based on individual performance or other factors. Accordingly, the Committee approved bonuses for 2007 as shown below:

Executive	2007 Award Award	Award as a % of Target Bonus	Award as a % of Salary
Mr. Weil	$ 1,633,958	105.4%	105.4%
Mr. Chambrello	698,518	105.4%	79.1%
Mr. Laird	439,555	105.4%	70.3%
Mr. Raphaelson	414,940	105.4%	70.3%
Mr. Huntley	386,808	105.4%	70.3%
Mr. Saferin	271,977	87.7%	58.5%

With respect to the current year (ending December 31, 2008), the Committee determined to include free cash flow as an additional financial performance measure for current year bonuses. For this purpose, free cash flow is defined as EBITDA less cash interest expense, cash income tax expense, EBITDA from joint ventures (net of cash received from joint ventures) and capital expenditures (including capitalized software costs and capital expenditures for intangible license rights). The Committee determined to add the free cash flow performance measure in order to more closely align the executives' bonus opportunities with the Company's focus on strengthening cash flow during a difficult economic environment.

Long-Term Incentive Compensation

The Company's executive officers receive long-term incentive awards, such as stock options and restricted stock units (RSUs), under the stockholder-approved 2003 Incentive Compensation Plan that link their compensation with the long-term performance of the Company, align their interests with

stockholders and encourage career service. Each year, executives have the opportunity to receive equity awards based on a formula approved by the Committee. In December 2006, the Committee approved target equity award opportunity guidelines under which participants in the MICP would be eligible to receive a number of shares having an aggregate value equal to a designated percentage of base salary. The equity award opportunity was determined based on the participant's bonus award opportunity as shown below for the named executive officers:

Executive	Target Bonus Opportunity (Value as a % of Salary)	Equity Award Opportunity (Value as a % of Salary)
Mr. Weil	100.0%	155%
Mr. Chambrello	75.0%	120%
Mr. Laird	66.7%	95%
Mr. Raphaelson	66.7%	95%
Mr. Huntley	66.7%	95%
Mr. Saferin	66.7%	95%

With respect to the annual equity award opportunity for 2007, the Committee determined that one-half of the value would be granted in stock options and one-half in RSUs based on the fair value of the awards at the time of grant calculated under Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R) for financial statement reporting purposes. The awards vest over a period of five years subject, in the case of the RSUs granted to the executive group, to the satisfaction of financial performance criteria.

In February 2007, each of the named executive officers received formula equity awards based on his equity award opportunity. The number of options and RSUs comprising the formula equity awards is set forth below:

Executive	Date of Grant	Equity Awards	Vesting Schedule
Mr. Weil	02/27/2007	97,167 options and 35,385 RSUs	5.0 years
Mr. Chambrello	02/27/2007	42,879 options and 15,615 RSUs	5.0 years
Mr. Laird	02/27/2007	24,019 options and 8,747 RSUs	5.0 years
Mr. Raphaelson	02/27/2007	22,674 options and 8,257 RSUs	5.0 years
Mr. Huntley	02/27/2007	21,137 options and 7,697 RSUs	5.0 years
Mr. Saferin	02/27/2007	17,870 options and 6,508 RSUs	5.0 years

In addition, special or non-recurring awards were awarded during 2007 as set forth below:

Executive	Date of Grant	Equity Awards	Vesting Schedule
Mr. Weil	06/30/2007	224,719 RSUs	2.5 years
Mr. Laird	02/27/2007	35,000 RSUs	5.0 years
Mr. Raphaelson	02/27/2007	15,000 RSUs	5.0 years

The special award for Mr. Weil was granted pursuant to the terms of his employment agreement, which provided for him to receive a number of RSUs calculated by dividing $8 million by the average closing price of the Company's common stock for the 30-day period prior to grant. These RSUs vest in three equal increments, one-third on each December 31 through the end of the term of his employment agreement on December 31, 2009, but are subject to a deferral agreement such that vested units are not expected to be issued or delivered to Mr. Weil until six months after his employment terminates. The special awards to Messrs. Laird and Raphaelson were approved by the Committee in connection with the increases to their salaries for the reasons discussed above. In addition, the vesting of Mr. Laird's award is subject to accelerated vesting in the event he retires on or after December 31, 2009.

The formula RSUs approved for the named executive officers and the special RSUs approved for Messrs. Laird and Raphaelson were subject to achievement of 2007 financial performance criteria (of either revenue of at least $802.4 million or EBITDA of at least $260.6 million). In February 2008, the Committee determined that both targets had been achieved, resulting in the vesting of the first installment of these awards. The balance of these awards vest in 20% increments on each of the second through fifth anniversaries of the grant date, subject to service requirements.

The value of the awards granted to the named executive officers in 2007 is shown in the "Grants of Plan-Based Awards" table below. The 2007 expense associated with awards granted to the named executive officers in 2007 and prior years is shown in the "Summary Compensation Table" below.

Supplemental Executive Retirement Plan

As part of the Committee's continuing review of executive compensation and benefits, the Committee discontinued the Company's Supplemental Executive Retirement Plan (SERP) as of the end of 2005. Benefit accruals for the SERP's four participants were frozen at amounts calculated at the end of 2005. The amounts are fully vested and credited for interest at a rate of 4% per annum, compounded annually, from the period from December 31, 2005 through distribution. The lump sum values at the end of 2007 for the named executives who participated in the SERP were as follows:

Executive	Lump Sum Value of Residual SERP Benefit
Mr. Weil	$10.66 million
Mr. Laird	2.89 million
Mr. Huntley	4.10 million

Additional information regarding the SERP and the amounts credited during 2007 is shown in the section below titled "Supplemental Executive Retirement Plan."

Retirement Plans

Executive officers are eligible to participate in our 401(k) retirement plan under the same rules that apply to other employees. Under the plan, eligible employees of the Company and our U.S. subsidiaries may elect to defer a percentage of their compensation each year subject to plan limits and caps imposed by the IRS (maximum contributions of $15,500 for 2007). The Company makes matching contributions of 50 cents on the dollar for the first 6% of participant contributions (for a match of up to 3% of eligible compensation).

We also have a non-qualified deferred compensation plan that enables executive officers and other eligible employees to defer receipt of up to 50% of their base salary and up to 100% of their cash bonus under the MICP during their employment or for certain specified minimum deferral periods. Non-employee directors may also defer their director fees and other cash compensation payable for director services under this plan. The Company does not make any matching or profit share contributions under this plan. Accounts are maintained for participants, who elect to have their deferrals mirror the performance of investment options that we may offer from time to time. Although we have established a rabbi trust to assist us in meeting our obligations under the plan, account balances under the plan are unsecured under rules of the IRS and remain part of the Company's general assets until distributed to the participants. The value of participant deferrals is based solely on the performance of the investment options that they select. The Company does not guarantee any minimum return on those investments.

Additional information regarding the non-qualified deferred compensation plan and the amounts contributed by the named executive officers is shown in the section below titled "Non-Qualified Deferred Compensation."

Role of Compensation Consultant

The Committee has the sole authority to select and retain outside compensation consultants or any other consultants, legal counsel or experts to provide independent advice and assistance in connection with the execution of its responsibilities. During 2007, the Committee retained Mercer Human Resource Consulting to assist in the evaluation of the Company's executive compensation program and to advise the Committee on compensation issues. In particular, Mercer assisted the Committee during 2007 by:

- reviewing the Company's overall executive compensation program and providing observations on program design, pay philosophy, pay levels and incentive pay mix;

- assessing the competitive position of compensation of key executives of the Company, including benchmarking compensation levels of these executives against compensation levels of executives of companies in the Company's peer groups, as described in more detail below; and

- generally advising on the competitiveness of the compensation program for non-employee directors.

Representatives of Mercer generally attend meetings of the Committee, are available to participate in executive sessions and also communicate directly with the Committee chairman or its members outside of meetings. Mercer reports directly to the Committee, which determines the scope of requested services and approves fee arrangements for Mercer's work.

Benchmarking

The Committee annually reviews competitive compensation data for companies in two peer groups. The first peer group is composed of companies that are involved in the gaming industry and the second group is composed of technology companies, which we view as requiring similar management skills as the gaming industry.

In October 2007, the Committee reviewed a report from Mercer that compared the compensation of the Company's executives with the compensation of executives of companies in the gaming and technology peer groups. The gaming peer group included Bally Technologies, Inc., International Game Technology, Multimedia Games, Inc., Pollard Banknote Limited, Progressive Gaming International Corporation and WMS Industries Inc. The technology peer group included Affiliated Computer Services, Inc., Benchmark Electronics, Inc., CTS Corporation, Cubic Corporation, EDO Corporation, Methode Electronics, Inc., MTS Systems Corporation, National Instruments Corporation, Perot Systems Corporation, Plexus Corp., SRA International, Inc., Tetra Tech, Inc. and Trimble Navigation Limited. Mercer benchmarked the compensation of the key executives of the Company to the 25th, 50th and 75th percentiles for the comparator companies. For the Company's five highest paid executives, data for the peer groups was averaged with survey data for the general and technology industries. Base salary, total cash compensation (base salary and bonus) and total direct compensation (base salary, bonus and equity) for the Company's five highest paid executives were above the 75th percentile of the comparator companies.

In light of the relatively small number of companies in the gaming peer group described above and the fact that the companies comprising this group are generally smaller than the Company, the Committee asked Mercer to expand the gaming peer group to include casino companies and to provide updated compensation data based on the expanded gaming peer group. Mercer provided a report to the Committee that compared the compensation of the Company's five highest paid executives to the median for the companies in the expanded gaming peer group (which, in addition to the companies referred to above, included Harrah's Entertainment, Inc., MGM Mirage, Boyd Gaming Corp., Wynn Resorts Ltd., Trump Entertainment Resorts and Youbet.com Inc.). For the five highest paid executives of the Company, the elements benchmarked (base salary, total cash consideration and total direct compensation) were above the median of the comparator companies (except that in the case of one executive, total direct compensation was slightly below the median).

The Committee uses the comparative data as a general indicator of relevant market conditions, but does not set specific benchmark targets for total executive compensation or for individual elements of the Company's executive compensation program.

Equity Grant Practices

The Committee generally grants equity awards, including stock options and RSUs, at regularly scheduled meetings which are normally set in the prior year. The exercise price for option grants is determined by calculating the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. An award that is approved for a new hire would generally not be deemed granted until the date the employee begins employment. As an administrative convenience, the Committee has delegated to the Chief Executive Officer and to the Chief Operating Officer the authority to grant awards to new hires and other employees who are not executive officers in between Committee meetings, within designated award levels, subject to reporting to the Committee at the Committee's next scheduled meeting.

Employment Agreements; Severance and Change in Control Arrangements

We have entered into employment agreements with our executive officers. The contracts specify duties and minimum compensation commitments. The contracts also provide for severance benefits in certain circumstances and impose restrictive covenants, which relate to, among other things, confidentiality and competition. The Committee believes that employment agreements with our executive officers are desirable as a means to attract executive talent, to encourage career service, to obtain a measure of assurance as to the executive's continued employment in light of prevailing market competition, to impose the restrictive covenants described above and, where practicable, to provide comparable severance and other terms and conditions to similarly situated executives.

The severance protection provided under employment agreements assists the Company in attracting and retaining executives and is designed to ease an executive's transition in the event of an unexpected termination by the Company due to changes in the Company's employment needs. Severance provisions that are included in the agreements do not generally enhance an employee's current income, and therefore are generally independent of the direct compensation decisions made by the Committee from year to year.

The employment agreements with our named executive officers generally provide for enhanced severance payments if their employment were terminated in connection with a change in control (as defined in the agreements). The Committee views these enhanced severance provisions as appropriate because they encourage executives to remain focused on the Company's business in the event of rumored or actual fundamental corporate changes, allow executives to assess potential change in control transactions objectively without regard to the potential impact on their own job security and are generally not triggered in connection with a change in control unless an executive's employment is terminated without "cause" or the executive terminates for "good reason" within certain timeframes.

The Company has change in control provisions in its equity compensation plans such that unvested stock options and other equity awards would generally accelerate upon a change in control (as defined in the plans). These provisions apply to all plan participants. The Committee believes that these provisions are appropriate since an employee's position could be adversely affected by a change in control even if he or she is not terminated.

For further details about the agreements with the named executive officers and the amendments we expect to enter into Messrs. Weil and Chambrello, including the severance provisions contained therein, see the sections titled "Potential Payments upon Termination or Change in Control" and "Amendments to Employment Agreements" after the Compensation Discussion and Analysis.

Factors Affecting Compensation

Tax Deductibility of Executive Compensation

In implementing the Company's compensation programs, the Committee's general policy is to consider any significant effects of Section 162(m) of the Internal Revenue Code, which limits a public company's tax deduction for certain compensation in excess of $1 million paid to the chief executive officer and certain of the other highest paid executive officers. The Committee has taken steps so that annual bonuses as well as stock options and RSUs granted to senior executive officers will generally qualify as "performance-based" compensation, which is excluded from the $1 million deductibility cap imposed under Section 162(m). Some forms of compensation, however, such as salary and RSUs awarded without performance-based vesting conditions do not qualify for tax deductibility in amounts in excess of $1 million per year. While the Committee seeks to take advantage of favorable tax treatment in implementing the Company's executive compensation programs, the Committee will authorize compensation that does not qualify for tax deductibility if the Committee believes it is necessary or appropriate to give priority to other objectives of the Company. In the case of the RSUs awarded to Mr. Weil in June 2007 without performance-based vesting conditions as part of his sign-on bonus pursuant to the terms of his employment agreement, such award is subject to a deferral agreement that was structured to provide for deferred distribution of vested units until the resulting compensation can be fully deducted by the Company without limitation under 162(m). This deferral agreement is expected to result in Mr. Weil receiving distribution of vested units six months after his employment ends and the compensation being fully deductible by the Company during the year of distribution.

Accounting Considerations

The Committee considers the accounting implications with respect to the executive compensation program including the estimated cost for financial reporting purposes of equity compensation under SFAS 123R.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with the Company's management. Based on that review and discussion, the Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee

Peter A. Cohen, Chairman
Eric M. Turner[1]
Joseph R. Wright, Jr.[1]

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(1) Messrs. Turner and Wright ceased being members of the Compensation Committee subsequent to the Committee's report.

Summary Compensation Table

The table below shows the compensation of the Chief Executive Officer, the Chief Financial Officer and the three other highest paid executive officers who were serving as executive officers on December 31, 2007. The table also shows the compensation of Mr. Huntley, who was an executive officer until August 2007. These six individuals are the named executive officers for 2007.

Name and Principal Position	Year	Salary ($)	Bonus ($)[1]	Stock Awards ($)[2]	Option Awards ($)[3]	Non-Equity Incentive Plan Compensation ($)[1]	All Other Compensation ($)[4]	Total ($)
A. Lorne Weil Chairman and Chief Executive Officer	2007 2006	1,549,650 1,500,000		5,618,445 1,898,710	2,157,031 1,846,714	1,633,958 1,173,837	69,561 113,865	11,028,645 6,533,126
DeWayne E. Laird Vice President and Chief Financial Officer	2007 2006	625,000 522,000		1,816,564 794,976	537,444 244,247	439,555 260,872	6,750 11,000	3,425,313 1,833,095
Michael R. Chambrello President and Chief Operating Officer	2007 2006	883,301 855,000		1,086,443 843,409	1,114,982 1,169,341	698,518 469,785	6,750 6,600	3,789,994 3,344,135
Ira H. Raphaelson[5] Vice President and General Counsel	2007 2006	590,000 495,000		741,835 555,714	579,159 480,803	414,940 247,379	6,750	2,332,684 1,778,896
Steven M. Saferin Vice President and President of Properties	2007	465,000		229,391	442,946	271,977	6,750	1,416,064
William J. Huntley[6] Vice President	2007	550,000		475,012	567,903	386,808	4,923	1,984,646

(1) The amounts in the "non-equity incentive plan compensation" column reflect the performance bonuses awarded for 2007 under our management incentive compensation program.

(2) The amounts in the "stock awards" column reflect the compensation cost recognized by us for financial statement reporting purposes in 2007 for grants of restricted stock units awarded to the named executive officers in 2007 and prior years. The cost was computed in accordance with SFAS No. 123R, which is based on the fair value of the award at the time of grant. The fair value of the awards was determined by multiplying the number of shares subject to the award by the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant date. For a discussion of valuation assumptions, see Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

(3) The amounts in the "option awards" column reflect the compensation cost recognized by us for financial statement reporting purposes in 2007 for grants of stock options awarded to the named executive officers in 2007 and prior years. The cost was computed in accordance with SFAS No. 123R, which is based on the fair value of the award at the time of grant using a Black- Scholes option pricing model. For a discussion of valuation assumptions, see Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

(4) The amounts indicated as "all other compensation" for 2007 include the following:

(a) Employer contributions to 401(k) retirement plan: Mr. Weil, $6,750; Mr. Laird, $6,750; Mr. Chambrello, $6,750; Mr. Raphaelson, $6,750; Mr. Huntley, $4,923; and Mr. Saferin, $6,750.

(b) Reimbursements for legal services provided to Mr. Weil in connection with his employment agreement, $19,402.

(c)

Costs attributable to Mr. Weil's personal travel using fractional ownership aircrafts, $43,409 (calculated based on Company's out-of-pocket cost for the flights less amounts reimbursed by Mr. Weil at IRS rates for his family members).

The amounts indicated as "all other compensation" for 2006 include the following:

(i) Employer contributions to 401(k) retirement plan: Mr. Weil, $11,000; Mr. Laird, $11,000; and Mr. Chambrello, $6,600.

(ii) Reimbursements for legal services provided to Mr. Weil in connection with his employment agreement, $66,791.

(iii) Costs attributable to Mr. Weil's personal travel using fractional ownership aircrafts, $36,074 (calculated based on Company's out-of-pocket cost for the flights less amounts reimbursed by Mr. Weil at IRS rates for his family members).

(5)
Mr. Raphaelson became employed on February 1, 2006. The compensation shown above for 2006 reflects amounts paid to him for a partial year of employment.

(6)
Mr. Huntley served as an executive officer during 2007 in his role as Vice President and President of Racing, Sports and Gaming Technology. He continues to serve as a Vice President but no longer serves as a division president.

Grants of Plan-Based Awards for Fiscal Year 2007

The table below provides information regarding the performance bonuses, stock options and restricted stock units granted to the named executive officers during 2007.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards ($)[1]			Estimated Future Payouts Under Equity Incentive Plan Awards ($)[2]				
Name	**Grant Date**	**Compensation Committee Meeting Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Target (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)[3]**	**All Other Option Awards: Number of Securities Underlying Options (#)[4]**	**Exercise or Base Price of Option Awards ($/Sh)[5]**	**Grant Date Fair Value of Stock and Option Awards ($)[6]**
A. Lorne Weil			774,825	1,549,650	3,099,300					
	02/27/2007	02/27/2007				35,385				1,200,967
	06/30/2007	08/02/2006					224,719			7,747,188
	02/27/2007	02/27/2007						97,167	33.94	1,334,103
DeWayne E. Laird			208,438	416,875	833,750					
	02/27/2007	02/27/2007				8,747				296,873
	02/27/2007	02/27/2007				35,000				1,187,900
	02/27/2007	02/27/2007						24,019	33.94	329,781
Michael R. Chambrello			331,238	662,476	1,324,952					
	02/27/2007	02/27/2007				15,615				529,973
	02/27/2007	02/27/2007						42,879	33.94	588,729
Ira H. Raphaelson			196,765	393,530	787,060					
	02/27/2007	02/27/2007				8,257				280,243
	02/27/2007	02/27/2007				15,000				509,100
	02/27/2007	02/27/2007						22,674	33.94	311,314
Steven M. Saferin		02/27/2007	155,078	310,155	620,310					
	02/27/2007	02/27/2007				6,508				220,882
	02/27/2007							17,870	33.94	245,355
William J. Huntley			183,425	366,850	733,700					
	02/27/2007	02/27/2007				7,697				261,236
	02/27/2007	02/27/2007						21,137	33.94	290,211

(1)
The amounts shown under the column "estimated future payouts under non-equity incentive plan awards" represent the performance bonus opportunity approved for 2007 for each of the named executive officers under the management incentive compensation program. The actual amounts awarded under the program for 2007 are shown in the "Summary Compensation Table" above under the column "non-equity incentive plan compensation."

(2)

The amounts shown under the column "estimated future payouts under equity incentive plan awards" represent the annual award of restricted stock units granted under the management incentive compensation program based upon each participant's equity award opportunity for 2007 and special awards of restricted stock units to Messrs. Laird and Raphaelson. These awards vest over a period of five years subject to the satisfaction of minimum performance criteria for 2007 and, in the case of Messrs. Weil, Laird, Raphaelson, Huntley and Saferin, are subject to accelerated vesting in certain circumstances under their employment agreements. In addition, as part of the special award approved for Mr. Laird, the acceleration provisions applicable under his employment agreement were expanded with respect to this award to include acceleration upon death or retirement on or after December 31, 2009.

(3)

The amount shown under the column "all other stock awards" represents an award of restricted stock units to Mr. Weil under the terms of his employment agreement, which provided for him to receive a number of restricted stock units on June 30, 2007 calculated by dividing $8 million by the average closing price of the Company's common stock for the 30-day period prior to the grant and for vesting to occur in three equal installments, one-third on each of December 31, 2007, 2008 and 2009 subject to accelerated vesting in certain circumstances under the terms of his employment agreement. The award is subject to a deferral agreement such that vested units are not expected to be issued or delivered to Mr. Weil until six months after his employment terminates.

(4)

The amounts shown under the column "all other option awards" represent the annual award of stock options granted under the management incentive compensation program based upon each participant's equity award opportunity for 2007. The awards vest over a period of five years and, in the case of Messrs. Weil, Laird, Raphaelson, Huntley and Saferin, are subject to accelerated vesting in certain circumstances under the terms of their employment agreements.

(5)

The exercise price for these options was set at market, which was calculated by determining the average of the high and low sales prices of our common stock on the trading day immediately prior to grant.

(6)

The amounts indicated as the "grant date fair value" for the awards granted during 2007 were computed in accordance with SFAS No. 123R. In the case of the restricted stock units, the value was calculated by determining the average of the high and low sales prices of our common stock on the trading day immediately prior to the grant. In the case of the options, the value was determined using a Black-Scholes option pricing model. For a

discussion of valuation assumptions, see Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

Outstanding Equity Awards at Fiscal Year-End

The table below provides information with respect to the stock options and restricted stock units held by the named executive officers as of December 31, 2007.

		Option Awards				Stock Awards	
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)[1]**
A. Lorne Weil	07/08/1999		76,000[2]	2.625	07/07/2009		
	12/31/1999	70,000		3.50	12/30/2009		
	01/01/2001	127,000		2.95	12/31/2010		
	12/14/2001	134,000		7.10	12/13/2011		
	12/12/2002	119,000		6.16	12/11/2012		
	02/28/2003	600,000		5.13	02/27/2010		
	06/23/2003	400,000		7.96	06/22/2010		
	12/08/2003	120,000	30,000[3]	15.96	12/07/2013		
	12/09/2004	90,000	60,000[3]	23.15	12/08/2014		
	12/15/2005	30,000	45,000[3]	27.68	12/14/2015	15,000[4]	$ 498,750
	09/07/2006					117,500[5]	$ 3,906,875
	02/27/2007		97,167[3]	33.94	02/26/2017	35,385[6]	$ 1,176,551
	06/30/2007					149,813[7]	$ 4,981,282
DeWayne E. Laird	12/12/2002	5,000		6.16	12/11/2012		
	12/08/2003	19,200	9,600[3]	15.96	12/07/2013		
	12/09/2004	10,400	10,400[3]	23.15	12/08/2014		
	01/10/2005	5,000	15,000[3]	22.53	01/09/2015		
	12/15/2005	5,200	7,800[3]	27.68	12/14/2015	2,648[4]	$ 88,046
	05/03/2006					48,000[8]	$ 1,596,000
	02/27/2007		24,019[3]	33.94	02/26/2017	43,747[6]	$ 1,454,588
Michael R. Chambrello	07/01/2005	200,000	300,000[3]	27.01	06/30/2015		
	12/15/2005	16,800	25,200[3]	27.68	12/14/2015	8,438[4]	$ 280,564
	03/03/2006					100,001[9]	$ 3,325,033
	02/27/2007		42,879[3]	33.94	02/26/2017	15,615[6]	$ 519,199
Ira H. Raphaelson	02/01/2006	40,000	160,000[3]	31.79	01/31/2016	76,636[10]	$ 2,548,147
	02/27/2007		22,674[3]	33.94	02/26/2017	23,257[6]	$ 773,295
Steven Saferin	12/08/2003		14,600[3]	15.96	12/07/2013		
	12/09/2004		9,200[3]	23.15	12/08/2014		
	01/10/2005		30,000[3]	22.53	01/09/2015		
	12/15/2005		10,800[3]	27.68	12/14/2015	3,502[4]	$ 116,442
	02/23/2006	5,000	20,000[3]	31.99	02/22/2016	20,000[4]	$ 665,000
	02/27/2007		17,870[3]	33.94	02/26/2017	6,508[6]	$ 216,391
William Huntley	12/08/2003	15,600	15,600[3]	15.96	12/07/2013		
	12/09/2004	6,800	13,600[3]	23.15	12/08/2014		
	01/10/2005		15,000[3]	22.53	01/09/2015		
	12/15/2005	9,200	13,800[3]	27.68	12/14/2015	4,503[4]	$ 149,725
	02/23/2006	10,000	40,000[3]	31.99	02/22/2016	40,000[4]	$ 1,330,000
	02/27/2007		21,137[3]	33.94	02/26/2017	7,697[6]	$ 255,925

(1)

The value shown was calculated by multiplying the number of restricted stock units by the closing price of our common stock on December 31, 2007 ($33.25).

(2)

This option was awarded with a ten-year vesting schedule. The unvested balance vests in two installments, one-half on each of January 1, 2008 and 2009.

(3)

These options were awarded with a five-year vesting schedule, with one-fifth vesting on each of the first five anniversaries of the date of grant.

(4)

These restricted stock units were awarded with a five-year vesting schedule, subject to the satisfaction of minimum performance criteria for 2006. The first installment vested in February 2007 based on attainment of the performance goal, the second installment vested on the second anniversary of the date of grant and the balance will vest in three installments, one-third on each of the third through fifth anniversaries of the date of grant.

(5) These restricted stock units were part of a grant to Mr. Weil under his employment agreement. The first installment vested on December 31, 2006, the second installment vested on December 31, 2007 and the remainder vests in two installments, one-half on each of December 31, 2008 and 2009.

(6) These restricted stock units were awarded with a five-year vesting schedule, subject to the satisfaction of minimum performance criteria for 2007. The first installment vested in February 2008 based on attainment of the performance goal and the balance will vest in four installments, one-quarter on each of the second through fifth anniversaries of the date of grant.

(7) These restricted stock units were part of a grant to Mr. Weil under his employment agreement. The first installment vested on December 31, 2007 and the remainder vests in two installments, one-half on each of December 31, 2008 and 2009.

(8) These restricted stock units were awarded with a five-year vesting schedule, with one-fifth vesting on each of the first five anniversaries of the date of grant. The first installment vested in May 2007 and the balance will vest in four installments, one-quarter on each of the second through fifth anniversaries of the date of grant.

(9) These restricted stock units were awarded to Mr. Chambrello in connection with the restructuring of the inducement stock options that he received upon joining the Company in July 2005. The first installment of these units vested in February 2007 based on attainment of the performance goals for the award, the second installment vested on the second anniversary of the date of grant and the balance will vest in three installments, one-third on each of July 1, 2008, 2009 and 2010.

(10)

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

(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 Companys financial position or results of operations in a particular quarter or fiscal year, or that the Companys 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 Companys financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at September 30, 2004, the Company had aggregate accruals for environmental costs of $117 million ($83 million as at December 31, 2003).

D. Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others, which extend

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

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

Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2005 and 2012, for the benefit of the lessor. If the fair value of the assets, at the end of their respective lease term, is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. At September 30, 2004, the maximum exposure in respect of these guarantees was $98 million, of which $6 million has been recorded.

At September 30, 2004, the carrying value for guarantees for which the Company was required to recognize a liability for the fair value of the obligation was $2 million. There are no recourse provisions to recover any amounts from third parties.

Other guarantees

The Company, including certain of its subsidiaries, has granted irrevocable standby letters of credit and surety bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at September 30, 2004, the maximum potential liability under these guarantees was $444 million of which $361 million was for workers compensation and other employee benefits and $83 million was for equipment under leases and other. During 2004, the Company granted guarantees for which no liability has been recorded, as they relate to the Company s future performance.

As at September 30, 2004, the Company had not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any additional payments associated with these guarantees. The guarantee instruments mature at various dates between 2004 and 2007.

CN Pension Plan and CN 1935 Pension Plan

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

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indemnifications survive the termination of such agreements or trust deeds. As at September 30, 2004, the Company had not recorded a liability associated with these indemnifications, as the Company does not expect to make any payments pertaining to these indemnifications.

General indemnifications

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to, (a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements; (b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements; (c) contracts for the sale of assets and securitization of accounts receivable; (d) contracts for the acquisition of services; (e) financing agreements; (f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors; (g) transfer agent and registrar agreements in respect of the Company's securities; (h) trust agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements; (i) master agreements with financial institutions governing derivative transactions; and (j) settlement agreements with insurance companies or other third parties whereby such insurer or third party has been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements. To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be determined with certainty.

In 2004, the Company entered into various indemnification contracts with third parties for which the maximum exposure for future payments cannot be determined with certainty. As a result, the Company was unable to determine the fair value of these guarantees and accordingly, no liability was recorded. As at September 30, 2004, the carrying value for guarantees for which the Company was able to determine the fair value, was $1 million. There are no recourse provisions to recover any amounts from third parties.

Note 9 – Common stock

Share repurchase program

On October 26, 2004, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 14 million common shares between November 1, 2004 and October 31, 2005 pursuant to a normal course issuer bid, at prevailing market prices.

Common stock split

On January 27, 2004, the Board of Directors of the Company approved a three-for-two common stock split which was effected in the form of a stock dividend of one-half additional common share of CN payable for each share held. The stock dividend was paid on February 27, 2004, to shareholders of record on February 23, 2004. All equity -based benefit plans were adjusted to reflect the issuance of additional shares or options due to the declaration of the stock split. All share and per share data has been adjusted to reflect the stock split.

Note 10 Earnings per share

	Three months ended September 30		Nine months ended September 30	
	2004	2003	**2004**	2003
	(Unaudited)			
Basic earnings per share				
Income before cumulative effect of change in accounting policy	**$ 1.21**	$ 1.04	**$ 3.09**	$ 2.59
Cumulative effect of change in accounting policy	-	-	-	0.16
Net income	**$ 1.21**	$ 1.04	**$ 3.09**	$ 2.75
Diluted earnings per share				
Income before cumulative effect of change in accounting policy	**$ 1.19**	$ 1.02	**$ 3.05**	$ 2.55
Cumulative effect of change in accounting policy	-	-	-	0.16
Net income	**$ 1.19**	$ 1.02	**$ 3.05**	$ 2.71

The following table provides a reconciliation between basic and diluted weighted average shares outstanding:

	Three months ended September 30		Nine months ended September 30	
In millions	**2004**	2003	**2004**	2003
	(Unaudited)			
Weighted-average shares outstanding	**285.9**	283.9	**285.1**	287.7
Dilutive effect of stock options	**4.9**	4.2	**4.5**	4.1
Weighted-average diluted shares outstanding	**290.8**	288.1	**289.6**	291.8

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

Note 11 Reconciliation of United States and Canadian GAAP

The financial statements of the Company prepared in accordance with Canadian GAAP are provided below along with a tabular reconciliation and discussion of the major differences between U.S. and Canadian GAAP.

A. Canadian GAAP financial statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2004	2003	**2004**	2003
	(Unaudited)			
Revenues	**$ 1,709**	$ 1,413	**$ 4,812**	$ 4,372
Operating expenses				
Labor and fringe benefits	**471**	484	**1,365**	1,440
Purchased services and material	**190**	202	**561**	631
Depreciation and amortization	**129**	114	**381**	360
Fuel	**132**	100	**377**	353
Equipment rents	**64**	71	**195**	232
Casualty and other	**114**	113	**323**	351
Total expenses	**1,100**	1,084	**3,202**	3,367
Operating income	**609**	329	**1,610**	1,005
Interest expense	**(67)**	(78)	**(207)**	(246)
Other income (loss)	**(9)**	13	**(45)**	13
Income before income taxes	**533**	264	**1,358**	772
Income tax expense	**(166)**	(56)	**(434)**	(207)
Net income	**$ 367**	$ 208	**$ 924**	$ 565
Earnings per share				
Basic	**$ 1.28**	$ 0.73	**$ 3.24**	$ 1.96
Diluted	**$ 1.26**	$ 0.72	**$ 3.19**	$ 1.94
Weighted-average number of shares				
Basic	**285.9**	283.9	**285.1**	287.7
Diluted	**290.3**	288.1	**289.3**	291.8

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

A. Canadian GAAP financial statements (continued)

CONSOLIDATED BALANCE SHEET

(In millions)	**September 30 2004**	December 31 2003	September 30 2003
	(Unaudited)		*(Unaudited)*
Assets			
Current assets:			
Cash and cash equivalents	**$ 132**	$ 130	$ 122
Accounts receivable	**743**	529	567
Material and supplies	**155**	120	145
Deferred income taxes	**106**	125	123
Other	**154**	188	153
	1,290	1,092	1,110
Properties	**16,943**	15,158	15,442
Other assets and deferred charges	**919**	900	840
Total assets	**$ 19,152**	$ 17,150	$ 17,392
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued charges	**$ 1,276**	$ 1,366	$ 1,394
Current portion of long-term debt	**257**	483	537
Other	**69**	73	62
	1,602	1,922	1,993
Deferred income taxes	**3,466**	3,365	3,401
Other liabilities and deferred credits	**1,621**	1,208	1,194
Long-term debt	**5,141**	4,175	4,473
Shareholders' equity:			
Common shares	**3,620**	3,530	3,490
Contributed surplus	**166**	166	166
Currency translation	**(43)**	(38)	(25)
Retained earnings	**3,579**	2,822	2,700
	7,322	6,480	6,331
Total liabilities and shareholders' equity	**$ 19,152**	$ 17,150	$ 17,392

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

A. Canadian GAAP financial statements (continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

	Three months ended September 30		Nine months ended September 30	
	2004	2003	**2004**	2003
		(Unaudited)		
Operating activities				
Net income	**$ 367**	$ 208	**$ 924**	$ 565
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	**129**	114	**384**	364
Deferred income taxes	**167**	24	**319**	137
Equity in earnings of English Welsh and Scottish Railway	**(1)**	(2)	**7**	(20)
Other changes in:				
Accounts receivable	**(80)**	39	**(140)**	119
Material and supplies	**30**	7	**(8)**	(27)
Accounts payable and accrued charges	**(81)**	(30)	**(110)**	(105)
Other net current assets and liabilities	**26**	3	**45**	(2)
Other	**(1)**	24	**30**	42
Cash provided from operating activities	**556**	387	**1,451**	1,073
Investing activities				
Net additions to properties	**(323)**	(165)	**(707)**	(392)
Acquisition of BC Rail	**(984)**	-	**(984)**	-
Acquisition of GLT	**6**	-	**(547)**	-
Other, net	**(3)**	(3)	**169**	6
Cash used by investing activities	**(1,304)**	(168)	**(2,069)**	(386)
Dividends paid	**(56)**	(48)	**(167)**	(144)
Financing activities				
Issuance of long-term debt	**2,903**	705	**6,924**	2,729
Reduction of long-term debt	**(2,132)**	(825)	**(6,198)**	(2,588)
Issuance of common shares	**30**	28	**61**	69
Repurchase of common shares	-	(87)	-	(656)
Cash provided from (used by) financing activities	**801**	(179)	**787**	(446)

Net increase (decrease) in cash and cash equivalents	**(3)**	(8)	**2**	97
Cash and cash equivalents, beginning of period	**135**	130	**130**	25
Cash and cash equivalents, end of period	**$ 132**	$ 122	**$ 132**	$ 122

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

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

(i) Reconciliation of net income

	Three months ended September 30		**Nine months ended September 30**	
In millions	**2004**	2003	**2004**	2003
Net income U.S. GAAP	**$ 346**	$ 294	**$ 882**	$ 790
Adjustments in respect of:				
Property capitalization, net of depreciation	**24**	(121)	**64**	(253)
Stock-based compensation cost	**(6)**	(6)	**(15)**	(9)
Interest expense	**12**	-	**12**	-
Income tax recovery (expense) on current period adjustments	**(9)**	41	**(19)**	85
Income before cumulative effect of change in accounting policy	**367**	208	**924**	613
Cumulative effect of change in accounting policy (net of applicable taxes)	-	-	-	(48)
Net income Canadian GAAP	**$ 367**	$ 208	**$ 924**	$ 565

Property capitalization

Effective January 1, 2004, the Company changed its capitalization policies under Canadian GAAP, on a prospective basis, to conform with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3061 Properties, Plant and Equipment. The change was made in response to the CICA Handbook Section 1100, Generally Accepted Accounting Principles, issued in July 2003. This section provides new accounting guidance as to what constitutes GAAP in Canada and its sources, thereby codifying a GAAP hierarchy. The section also establishes that when financial statements are prepared in accordance with regulatory or legislative requirements that are in conflict with the new GAAP hierarchy, they cannot be described as being in accordance with Canadian GAAP.

The Company s accounting for Properties under Canadian GAAP had been based on the rules and regulations of the Canadian Transportation Agency s (CTA) Uniform Classification of Accounts, which for railways in Canada, were considered Canadian GAAP prior to the issuance of Section 1100. Under the CTA rules, the Company capitalized only the material component of track replacement costs, to the extent it met the Company s minimum threshold for capitalization. In accordance with the CICA Handbook Section 3061 Properties, Plant and Equipment, the Company now capitalizes the

cost of labor, material and related overheads associated with track replacement activities provided they meet the Company s minimum threshold for capitalization. Also, all major expenditures for work that extends the useful life and/or improves the functionality of bridges, other structures and freight cars, are capitalized.

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

Stock-based compensation

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

Interest expense

In the first quarter of 2004, in anticipation of future debt issuances, the Company had entered into treasury lock transactions for a notional amount of U.S.$380 million to fix the treasury component on these future debt

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

Cumulative effect of change in accounting policy

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

(ii) Reconciliation of significant balance sheet items

(In millions)		**September 30 2004**		December 31 2003		September 30 2003
Current assets - U.S. GAAP	**$**	**1,415**	$	1,127	$	1,131
Derivative instruments		**(123)**		(33)		(21)
Other		**(2)**		(2)		-
Current assets - Canadian GAAP	**$**	**1,290**	$	1,092	$	1,110
Properties - U.S. GAAP	**$**	**20,022**	$	18,305	$	18,478
Property capitalization, net of depreciation		**(3,004)**		(3,072)		(2,961)
Cumulative effect of change in accounting policy		**(75)**		(75)		(75)
Properties - Canadian GAAP	**$**	**16,943**	$	15,158	$	15,442
Other assets and deferred charges - U.S. GAAP	**$**	**947**	$	905	$	844
Derivative instruments		**(27)**		(5)		(3)
Other		**(1)**		-		(1)
Other assets and deferred charges - Canadian GAAP	**$**	**919**	$	900	$	840
Deferred income tax liability - U.S. GAAP	**$**	**4,673**	$	4,550	$	4,489
Cumulative effect of prior years adjustments to income		**(1,204)**		(1,071)		(1,071)
Income taxes on current period Canadian GAAP adjustments to income		**19**		(133)		(85)
Cumulative effect of change in accounting policy		**(27)**		(27)		(27)
Income taxes on translation of U.S. to Canadian GAAP adjustments		**17**		15		8
Income taxes on minimum pension liability adjustment		**10**		10		13
Income taxes on derivative instruments		**(48)**		(12)		(8)
Income taxes on settlement of interest rate swap recorded in other comprehensive income		**(4)**		-		-
Income tax rate enactments		**38**		38		86
Other		**(8)**		(5)		(4)
Deferred income tax liability - Canadian GAAP	**$**	**3,466**	$	3,365	$	3,401

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

(In millions)	**September 30 2004**	December 31 2003	September 30 2003
Other liabilities and deferred credits - U.S. GAAP	**$ 1,671**	$ 1,258	$ 1,252
Stock-based compensation	**(17)**	(20)	(20)
Minimum pension liability	**(30)**	(30)	(38)
Other	**(3)**	-	-
Other liabilities and deferred credits - Canadian GAAP	**$ 1,621**	$ 1,208	$ 1,194
Capital stock - U.S. GAAP	**$ 4,742**	$ 4,664	$ 4,642
Capital reorganization	**(1,300)**	(1,300)	(1,300)
Stock-based compensation	**(5)**	(17)	(35)
Foreign exchange loss on convertible preferred securities	**(12)**	(12)	(12)
Costs related to the sale of shares	**33**	33	33
Share repurchase program	**162**	162	162
Capital stock - Canadian GAAP	**$ 3,620**	$ 3,530	$ 3,490
Contributed surplus - U.S. GAAP	**$ -**	$ -	$ -
Dividend in kind with respect to land transfers	**(248)**	(248)	(248)
Costs related to the sale of shares	**(33)**	(33)	(33)
Other transactions and related income tax effect	**(18)**	(18)	(18)
Share repurchase program	**(24)**	(24)	(24)
Capital reorganization	**489**	489	489
Contributed surplus - Canadian GAAP	**$ 166**	$ 166	$ 166
Accumulated other comprehensive loss - U.S. GAAP	**$ (57)**	$ (129)	$ (116)
Unrealized foreign exchange loss on translation of U.S. to Canadian GAAP adjustments, net of applicable taxes	**66**	63	51
Derivative instruments, net of applicable taxes	**(102)**	(26)	(16)
Unamortized gain on settlement of interest rate swap, net of applicable taxes	**(8)**	-	-
Income tax rate enactments	**34**	34	32
Minimum pension liability, net of applicable taxes	**20**	20	24
Other	**4**	-	-
Currency translation - Canadian GAAP	**$ (43)**	$ (38)	$ (25)
Retained earnings - U.S. GAAP	**$ 4,612**	$ 3,897	$ 3,720
Cumulative effect of prior years adjustments to income	**(1,928)**	(1,696)	(1,696)
Cumulative effect of change in accounting policy	**(48)**	(48)	(48)
Current period adjustments to net income	**42**	(232)	(177)
Share repurchase program	**(138)**	(138)	(138)
Cumulative dividend on convertible preferred securities	**(38)**	(38)	(38)
Capital reorganization	**811**	811	811
Dividend in kind with respect to land transfers	**248**	248	248
Other transactions and related income tax effect	**18**	18	18
Retained earnings - Canadian GAAP	**$ 3,579**	$ 2,822	$ 2,700

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

Income taxes

In the fourth quarter of 2003, under U.S. GAAP, the Company recorded an increase to its net deferred income tax liability resulting from the enactment of higher corporate tax rates in the province of Ontario. As a result, the Company recorded deferred income tax expense of $79 million and $2 million in the Consolidated Statement of Income and Other comprehensive income, respectively. For Canadian GAAP, the corresponding increase to the net deferred income tax liability was $33 million. The difference in the expense recorded reflects a larger net deferred tax liability position under U.S. GAAP.

Derivative instruments

Under U.S. GAAP, pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, the Company records in its balance sheet the fair value of derivative instruments used in its hedging activities. Changes in the market value of these derivative instruments have been recorded in Accumulated other comprehensive income, a separate component of Shareholders equity. There are no similar requirements under Canadian GAAP.

Minimum pension liability

Under U.S. GAAP, one of the Company s pension plan 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 and as a result, 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.

Convertible preferred securities

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

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 has been allocated to Capital stock followed by Retained earnings.

For Canadian and U.S. GAAP purposes, the Company designates the U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange loss from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange loss has been included as part of Accumulated other comprehensive income, a separate component of Shareholders equity, as required under SFAS No. 130, Reporting Comprehensive Income.

(iii) Consolidated statement of cash flows

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

For the three and nine months ended September 30, 2003, cash provided from operating activities and cash used by investing activities under Canadian GAAP, would increase by the same amount, $139 million and $315 million, respectively, due to the difference in the Company s property capitalization policies that existed prior to January 1, 2004 as discussed herein.

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

	Three months ended September 30		Nine months ended September 30	
	2004 (1)	2003	**2004 (1)**	2003
		(Unaudited)		
Statistical operating data				
Freight revenues ($ millions)	**1,621**	1,367	**4,596**	4,230
Gross ton miles (GTM) (millions)	**83,039**	76,169	**244,171**	229,993
Revenue ton miles (RTM) (millions)	**44,266**	39,936	**129,768**	119,678
Carloads (thousands)	**1,226**	1,031	**3,394**	3,113
Route miles (includes Canada and the U.S.)	**19,303**	17,539	**19,303**	17,539
Employees (end of period)	**23,466**	22,293	**23,466**	22,293
Employees (average during period)	**23,332**	22,357	**22,283**	22,040
Productivity				
Operating ratio (%)	**65.4**	67.9	**67.6**	71.1
Freight revenue per RTM (cents)	**3.66**	3.42	**3.54**	3.53
Freight revenue per carload ($)	**1,322**	1,326	**1,354**	1,359
Operating expenses per GTM (cents)	**1.35**	1.26	**1.33**	1.35
Labor and fringe benefits expense per GTM (cents)	**0.56**	0.54	**0.55**	0.56
GTMs per average number of employees (thousands)	**3,559**	3,407	**10,958**	10,435
Diesel fuel consumed (U.S. gallons in millions)	**95**	88	**288**	275
Average fuel price ($/U.S. gallon)	**1.31**	1.13	**1.26**	1.23

GTMs per U.S. gallon of fuel consumed	**874**	866	**848**	836
Safety indicators				
Injury frequency rate per 200,000 person hours	**2.8**	3.5	**2.7**	3.0
Accident rate per million train miles	**2.0**	1.9	**1.5**	2.0
Financial ratios				
Debt to total capitalization ratio (% at end of period)	**36.7**	37.8	**36.7**	37.8

(1) Includes BC Rail and GLT from dates of acquisition.

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

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

	Three months ended September 30			**Nine months ended September 30**		
	2004(1)	2003	Variance Fav (Unfav)	**2004**(1)	2003	Variance Fav (Unfav)
			(Unaudited)			
Revenue ton miles (millions)						
Petroleum and chemicals	**8,373**	7,515	11%	**24,274**	22,933	6%
Metals and minerals	**4,345**	3,421	27%	**12,332**	10,084	22%
Forest products	**10,480**	8,811	19%	**28,465**	25,706	11%
Coal	**3,451**	3,495	(1%)	**10,708**	11,022	(3%)
Grain and fertilizers	**8,787**	8,272	6%	**28,693**	24,217	18%
Intermodal	**8,090**	7,802	4%	**22,817**	23,336	(2%)
Automotive	**740**	620	19%	**2,479**	2,380	4%
	44,266	39,936	11%	**129,768**	119,678	8%
Freight revenue / RTM (cents)						
Total freight revenue per RTM	**3.66**	3.42	7%	**3.54**	3.53	-
Business units:						
Petroleum and chemicals	**3.57**	3.39	5%	**3.46**	3.48	(1%)
Metals and minerals	**4.67**	3.80	23%	**4.22**	3.84	10%
Forest products	**3.84**	3.65	5%	**3.74**	3.76	(1%)
Coal	**2.06**	1.63	26%	**1.98**	1.82	9%
Grain and fertilizers	**2.63**	2.66	(1%)	**2.63**	2.70	(3%)
Intermodal	**3.75**	3.59	4%	**3.58**	3.57	-
Automotive	**15.14**	16.61	(9%)	**15.53**	16.34	(5%)

Carloads (thousands)						
Petroleum and chemicals	**162**	149	9%	**476**	449	6%
Metals and minerals	**256**	105	144%	**552**	297	86%
Forest products	**177**	148	20%	**478**	446	7%
Coal	**121**	112	8%	**364**	360	1%
Grain and fertilizers	**132**	134	(1%)	**416**	389	7%
Intermodal	**314**	323	(3%)	**888**	963	(8%)
Automotive	**64**	60	7%	**220**	209	5%
	1,226	1,031	19%	**3,394**	3,113	9%
Freight revenue / carload (dollars)						
Total freight revenue per carload	**1,322**	1,326	-	**1,354**	1,359	-
Business units:						
Petroleum and chemicals	**1,846**	1,711	8%	**1,765**	1,777	(1%)
Metals and minerals	**793**	1,238	(36%)	**944**	1,303	(28%)
Forest products	**2,271**	2,176	4%	**2,228**	2,166	3%
Coal	**587**	509	15%	**582**	558	4%
Grain and fertilizers	**1,750**	1,642	7%	**1,817**	1,684	8%
Intermodal	**965**	867	11%	**920**	866	6%
Automotive	**1,750**	1,717	2%	**1,750**	1,861	(6%)

(1) Includes BC Rail and GLT from dates of acquisition.

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

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

Free cash flow

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

	Three months ended September 30		**Nine months ended September 30**	
In millions	**2004**	2003	**2004**	2003

Cash provided from operating activities	**$ 556**	$ 526	**$ 1,451**	$ 1,388
Less:				
Investing activities	**(1,304)**	(307)	**(2,069)**	(701)
Dividends paid	**(56)**	(48)	**(167)**	(144)
Cash provided (used) before financing activities	**(804)**	171	**(785)**	543
Adjustments:				
Change in accounts receivable sold	**(7)**	(66)	**8**	(88)
Acquisition of BC Rail	**984**	-	**984**	-
Acquisition of GLT	**(6)**	-	**547**	-
Free cash flow	**$ 167**	$ 105	**$ 754**	$ 455

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Item 2

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

Management□s discussion and analysis (MD&A) relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including the railroads and related holdings of Great Lakes Transportation LLC (GLT) as of May 10, 2004 and BC Rail as of July 14, 2004. As used herein, the word □Company□ means, as the context requires, CN and its subsidiaries. CN□s common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company□s objective is to provide meaningful and relevant information reflecting the Company□s financial condition and results of operations. The reader is advised to read all information provided in the MD&A in conjunction with the Company□s 2003 Annual MD&A and 2004 Interim and 2003 Annual Consolidated Financial Statements and notes thereto.

BUSINESS PROFILE

CN, directly and through its subsidiaries, is engaged in the rail and related transportation business. CN□s network of approximately 19,300 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN□s revenues are derived from seven business units consisting of the movement of a diversified and balanced portfolio of goods which positions it well to face economic fluctuations and enhances its potential to grow revenues. In 2003, no individual business unit accounted for more than 22% of revenues. The sources of revenue also reflect a balanced mix of destinations. In 2003, 22% of revenues came from U.S. domestic traffic, 34% from transborder traffic, 25% from Canadian domestic traffic and 19% from overseas traffic. CN originates approximately 84% of traffic moving along its network. This allows the Company to both capitalize on service advantages and build on opportunities to efficiently use assets.

STRATEGY

CN is committed to creating value for both its customers and shareholders. By providing quality and cost-effective service, CN seeks to create value for its customers, which solidifies existing customer relationships, while enabling it to pursue new ones. Sustainable financial performance is a critical element

of shareholder value, which CN strives to achieve by pursuing revenue growth, steadily increasing profitability, a solid free cash flow and an adequate return on investment. CN's business strategy is, and will continue to be, guided by its five core values: providing good service, controlling costs, focusing on asset utilization, commitment to safety, and developing and recognizing employees.

FINANCIAL RESULTS

Third quarter and first nine months of 2004 compared to corresponding periods in 2003

The Company recorded consolidated net income of $346 million ($1.21 per basic share or $1.19 per diluted share) for the quarter ended September 30, 2004 compared to $294 million ($1.04 per basic share or $1.02 per diluted share) in the third quarter of 2003, an increase of $52 million ($0.17 per basic and diluted share). Consolidated net income for the nine months ended September 30, 2004 was $882 million ($3.09 per basic share or $3.05 per diluted share) compared to $790 million ($2.75 per basic share or $2.71 per diluted share) in the same period of 2003, an increase of $92 million ($0.34 per basic and diluted share). The results for the third quarter and first nine months of 2004 include the results of operations of GLT as of May 10, 2004 and BC Rail as of July 14, 2004.

Operating income was $591 million for the third quarter of 2004 compared to $454 million in the same quarter of 2003, an increase of $137 million, or 30%. For the first nine months of 2004, operating income was $1,561 million compared to $1,265 million in the same period of 2003, an increase of $296 million, or 23%.

The operating ratio, defined as operating expenses as a percentage of revenues, was 65.4% in the third quarter of 2004 compared to 67.9% in the same quarter of 2003, a 2.5-point betterment. The nine-month operating ratio decreased to 67.6% in 2004 from 71.1% in the same period of 2003, a 3.5-point betterment.

The Company's results in the first nine months of 2003 included a cumulative benefit of $75 million, or $48 million after tax, resulting from a change in the accounting for removal costs for certain track structure

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assets pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations."

Excluding the 2003 cumulative effect of change in accounting policy, consolidated net income for the first nine months of 2004 increased by $140 million, or 19%.

The first nine months of 2004 was affected by the significant year-over-year appreciation in the Canadian dollar relative to the U.S. dollar. The stronger Canadian dollar impacted the conversion of the Company's U.S. dollar denominated revenues and expenses, and accordingly, reduced revenues, operating income and net income by approximately $45 million, $15 million and $7 million, respectively, for the third quarter, and approximately $195 million, $70 million and $37 million, respectively, for the first nine months of 2004. Also impacting the results for the nine-month period ended September 30, 2004 was a strike by the Company's employees represented by the Canadian Auto Workers (CAW) union (the "CAW strike") in February/March 2004. The strike, which lasted one month, negatively impacted operating income and net income for the nine-month period by approximately $35 million and $24 million, respectively.

Revenues

	Three months ended September 30	Nine months ended September 30

	2004	2003	% Δ	**2004**	2003	% Δ
Total revenues (*$M)*	**1,709**	1,413	21%	**4,812**	4,372	10%
Rail freight:						
Revenues *($M)*	**1,621**	1,367	19%	**4,596**	4,230	9%
RTMs *(M)*	**44,266**	39,936	11%	**129,768**	119,678	8%
Revenue/RTM *(¢)*	**3.66**	3.42	7%	**3.54**	3.53	-

Revenues in the third quarter of 2004 totaled $1,709 million compared to $1,413 million during the same period in 2003, an increase of $296 million, or 21%. Revenues for the first nine months of 2004 were $4,812 million, an increase of $440 million, or 10%, from the same period last year. The increase in the third quarter and nine-month period was due to strong merchandise revenue, the inclusion of GLT and BC Rail revenues, $148 million for the quarter and $206 million for the nine-month period, and an improved Canadian grain crop. Strong intermodal revenues also affected the increase in the third quarter. Partially offsetting these gains was the translation impact of the stronger Canadian dollar on U.S dollar denominated revenues.

Revenue ton miles, measuring the volume of rail freight transported by the Company, increased by 11% in the third quarter and 8% in the first nine months of 2004 when compared to the same periods in 2003. Freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 7% in the third quarter and was flat for the first nine months of 2004 when compared to the same periods last year. In both the third quarter and the first nine months of 2004, freight revenue per revenue ton mile was positively affected by an overall decrease in the average length of haul and was negatively affected by the translation impact of the stronger Canadian dollar.

Petroleum and chemicals

	Three months ended September 30			**Nine months ended September 30**		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M)*	**299**	255	17%	**840**	798	5%
RTMs *(M)*	**8,373**	7,515	11%	**24,274**	22,933	6%
Revenue/RTM (¢)	**3.57**	3.39	5%	**3.46**	3.48	(1%)

Petroleum and chemicals comprise a wide range of commodities, including chemicals, sulfur, plastics, petroleum and gas products. Most of the Company's petroleum and chemicals shipments originate in the Gulf of Mexico, Alberta and eastern Canada, and are destined for customers in Canada, the United States and overseas. The performance of this business unit is closely correlated with the North American economy. Revenues for this business unit increased by $44 million, or 17%, for the third quarter and $42 million or 5%, for the first nine months of 2004 when compared to the same periods in 2003. The increase was due to freight rate improvements in several key segments, particularly in the first half of the year, the inclusion of $13 million of BC Rail revenues (primarily sulfur), higher offshore demand for Canadian sulfur, and a shift from offshore to Canadian suppliers for petroleum gas. These gains were partially offset by the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 5% in the third quarter and declined by 1% for the first nine months of 2004 as the benefits of freight rate improvements were partially offset in the third quarter,

and more than offset in the first nine months of 2004, by the translation impact of the stronger Canadian dollar.

Metals and minerals

	Three months ended September 30			Nine months ended September 30		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M)*	**203**	130	56%	**521**	387	35%
RTMs *(M)*	**4,345**	3,421	27%	**12,332**	10,084	22%
Revenue/RTM (¢)	**4.67**	3.80	23%	**4.22**	3.84	10%

The metals and minerals business unit consists of nonferrous base metals, iron ore, steel, equipment and parts and construction materials. The Company□s superior rail access to major mines and smelters throughout North America has made the Company a transportation leader of copper, lead, zinc concentrates, iron ore, refined metals and aluminum. Construction materials are mainly aggregates (stone and sand) and cement. The Company has access to major cement producers and aggregate mines in Canada as well as in the U.S. Metals and minerals traffic is sensitive to fluctuations in the economy. Revenues for this business unit increased by $73 million, or 56%, for the third quarter and $134 million, or 35%, for the first nine months of 2004 when compared to the same periods in 2003. The increase is mainly due to the inclusion of GLT revenues, $50 million for the quarter and $82 million for the nine-month period, higher volumes of iron ore, largely from new business, increased shipments of raw materials and metal bars, and freight rate improvements. Partially offsetting these gains was the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile increased by 23% in the current quarter, and 10% in the first nine months of 2004, mainly due to GLT shorter-haul traffic which was partly offset by the translation impact of the stronger Canadian dollar.

Forest products

	Three months ended September 30			Nine months ended September 30		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M)*	**402**	322	25%	**1,065**	966	10%
RTMs *(M)*	**10,480**	8,811	19%	**28,465**	25,706	11%
Revenue/RTM (¢)	**3.84**	3.65	5%	**3.74**	3.76	(1%)

The forest products business unit includes various types of lumber, panels, wood chips, woodpulp, printing paper, linerboard and newsprint. The Company has superior rail access to the western and eastern Canadian fiber-producing regions, which are among the largest fiber source areas in North America. In the United States, the Company is strategically located to serve both the midwest and southern U.S. corridors with interline capabilities to other Class 1 railroads. The key drivers for the various commodities are: for newsprint, advertising lineage and overall economic conditions in the United States; for fibers (mainly wood pulp), the consumption of paper worldwide; and for lumber and panels traffic, housing starts and renovation activities in the United States. Although demand for forest products can be cyclical, the Company□s geographical advantages and product diversity tend to reduce the impact of market fluctuations. Revenues for this business unit increased by $80 million, or 25%, for the third quarter and $99 million, or 10%, for the first nine months of 2004 when compared to the same periods in 2003. The increase in both the current quarter and first nine months of 2004 was largely due to the inclusion of $40

million of BC Rail revenues (mainly lumber and panels), continued solid demand for lumber, freight rate improvements and solid western Canadian woodpulp shipments. The translation impact of the stronger Canadian dollar partially offset these gains. Revenue per revenue ton mile increased by 5% in the current quarter and decreased by 1% in the first nine months of 2004 as the benefit of freight rate improvements and a positive change in traffic mix were partially offset in the third quarter, and more than offset in the nine-month period, by the translation impact of the stronger Canadian dollar.

Coal

	Three months ended September 30			Nine months ended September 30		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M*)	**71**	57	25%	**212**	201	5%
RTMs *(M)*	**3,451**	3,495	(1%)	**10,708**	11,022	(3%)
Revenue/RTM (¢)	**2.06**	1.63	26%	**1.98**	1.82	9%

The coal business consists primarily of thermal grades of bituminous coal. Canadian thermal coal is delivered to power utilities primarily in eastern Canada, while in the United States, thermal coal is transported from mines served in southern Illinois, or from western U.S. mines via interchange with other railroads, to major utilities in the Midwest and southeast United States. The coal business also includes the transport of metallurgical coal, which is largely exported to steel markets in Japan and other Asian markets. Revenues for this business unit increased by $14 million, or 25%, for the third quarter and $11 million, or 5%, for the first nine months of 2004 when compared to the same periods in 2003. Revenues in the third quarter and first nine months of 2004 benefited from higher coal shipments to U.S. utilities and the inclusion of GLT and BC Rail revenues, $7 million for the quarter and $12 million for the nine-month period, and were negatively impacted by metallurgical mine closures in western Canada and the translation impact of the stronger Canadian dollar. The revenue per revenue ton mile increase of 26% in the current quarter and 9% in the nine-month period was mainly due to a decrease in the average length of haul and a positive change in traffic mix that were partly offset by the translation impact of the stronger Canadian dollar.

Grain and fertilizers

	Three months ended September 30			Nine months ended September 30		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues *($M)*	**231**	220	5%	**756**	655	15%
RTMs *(M)*	**8,787**	8,272	6%	**28,693**	24,217	18%
Revenue/RTM *(¢)*	**2.63**	2.66	(1%)	**2.63**	2.70	(3%)

The grain and fertilizer business unit depends primarily on crops grown and fertilizers processed in western Canada and the U.S. Midwest. The grain segment consists of three primary commodities: food grains, mainly wheat; oilseeds and oilseed products, primarily canola seed, oil and meal; and feed grains, including feed barley, feed wheat, and corn. Production of grain varies considerably from year to year, affected primarily by weather conditions. Grain exports are volatile, reflecting the size of the crop produced, international market conditions and foreign government policy. In the U.S., grain grown in Illinois and Iowa is exported, as well as transported to domestic processing facilities and feed markets. The Company also serves producers of potash, ammonium nitrate, urea and other fertilizers. Revenues for this business unit increased by $11 million, or 5%, for the third quarter and $101 million, or 15%, for the first nine months of 2004 when compared to the same periods in 2003.The increase in both the quarter and the nine-month period reflects higher Canadian wheat and barley exports. Partially offsetting the increase in the current quarter was the translation impact of the stronger Canadian dollar and a late harvest for the Canadian grain crop. The increase in the first nine months of 2004 was partially offset by weak shipments of U.S. soybeans due to tight supply, a shift in exports from the Gulf to the Pacific Northwest and the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile decreased by 1% in the current quarter and 3% in the nine-month period due to an increase in the average length of haul and the translation impact of the stronger Canadian dollar.

Intermodal

	Three months ended September 30			**Nine months ended September 30**		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M)*	**303**	280	8%	**817**	834	(2%)
RTMs *(M)*	**8,090**	7,802	4%	**22,817**	23,336	(2%)
Revenue/RTM (¢)	**3.75**	3.59	4%	**3.58**	3.57	-

The intermodal business unit is comprised of two segments: domestic and international. The domestic segment is responsible for consumer products and manufactured goods, operating through both retail and wholesale channels while the international segment handles import and export container traffic, serving the ports of Vancouver, Montreal, Halifax and New Orleans. The domestic segment is driven by consumer markets, with growth generally tied to the economy. The international segment is driven mainly by North American economic and trade conditions. Revenues for this business unit increased by $23 million, or 8%, for the third quarter and decreased by $17 million, or 2%, for the first nine months of 2004 when compared to the same periods in 2003. Both the third quarter and nine-month period benefited from heavy import volumes through the Port of Vancouver and price improvements, and were negatively affected by the de-marketing of marginal traffic, including the closure of the Company's smaller terminal facilities in the U.S, and the translation impact of the stronger Canadian dollar. Revenues in the first nine months of 2004 were also negatively impacted by the first-quarter CAW strike. Revenue per revenue ton mile increased by 4% in the third quarter and was flat in the first nine months of 2004. Improvements in traffic mix were partially offset in the third quarter, and were entirely offset in the nine-month period, by an increase in the average length of haul and the translation impact of the stronger Canadian dollar.

Automotive

	Three months ended September 30			Nine months ended September 30		
	2004	2003	% Δ	**2004**	2003	% Δ
Revenues (*$M*)	**112**	103	9%	**385**	389	(1%)
RTMs *(M)*	**740**	620	19%	**2,479**	2,380	4%
Revenue/RTM (¢)	**15.14**	16.61	(9%)	**15.53**	16.34	(5%)

The automotive business unit moves both finished vehicles and parts, originating in southwestern Ontario, Michigan and Mississippi, destined for the United States, Canada and Mexico. The Companys broad coverage, including its access to all of the Canadian assembly plants, enables it to consolidate full trainloads of automotive traffic for delivery to connecting railroads at key interchange points. The Company also serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads. The Companys automotive revenues are closely correlated to automotive production and sales in North America. Revenues for this business unit increased by $9 million, or 9%, in the third quarter and decreased by $4 million, or 1%, in the first nine months of 2004 when compared to the same periods in 2003. The benefit of new finished vehicle traffic that began in late 2003 was partially offset in the third quarter, and more than offset in the nine-month period, by the translation impact of the stronger Canadian dollar. Revenue per revenue ton mile decreased by 9% in the current quarter and 5% in the first nine months of 2004, due to the translation impact of the stronger Canadian dollar. The third quarter was also negatively impacted by an increase in the average length of haul.

Other

In the third quarter and first nine months of 2004, other revenues increased by $42 million and $74 million, respectively, when compared to the same periods last year, mainly due to revenues from GLTs maritime division of $38 million and $59 million, respectively.

Operating expenses

In the third quarter of 2004, operating expenses amounted to $1,118 million compared to $959 million in the same quarter of 2003. Operating expenses for the first nine months of 2004 were $3,251 million compared to $3,107 million in the same period of 2003. The increase of $159 million, or 17%, in the third quarter was mainly due to the inclusion of $93 million of GLT and BC Rail expenses, increased fuel costs, and higher expenses for personal injuries, labor and fringe benefits and purchased services. Partly offsetting the increase was the translation impact of the stronger Canadian dollar on U.S. dollar denominated expenses. The increase of $144 million, or 5%, in the first nine months of 2004 was mainly due to the inclusion of $136 million of GLT and BC Rail expenses, higher expenses for labor and fringe benefits, increased fuel costs, and higher casualty and other and depreciation expense. Partly offsetting the increase was the translation impact of the stronger Canadian dollar on U.S. dollar denominated expenses and lower equipment rents. The month-long CAW strike had a minimal impact on overall operating expenses during the nine-month period ended September 30, 2004 as the benefit from lower labor and fringe benefit expenses was mostly offset by increases in other expense categories.

	Three months ended September 30		Nine months ended September 30	
In millions	**2004**	2003	**2004**	2003

	Amount	**% of revenue**	Amount	% of revenue	**Amount**	**% of revenue**	Amount	% of revenue
Labor and fringe benefits	**$ 465**	**27.2%**	$ 414	29.3%	**$ 1,350**	**28.1%**	$ 1,283	29.3%
Purchased services and material	**190**	**11.1%**	151	10.7%	**561**	**11.7%**	529	12.1%
Depreciation and amortization	**153**	**9.0%**	136	9.6%	**445**	**9.2%**	418	9.6%
Fuel	**132**	**7.7%**	100	7.1%	**377**	**7.8%**	352	8.1%
Equipment rents	**64**	**3.7%**	69	4.9%	**195**	**4.1%**	228	5.2%
Casualty and other	**114**	**6.7%**	89	6.3%	**323**	**6.7%**	297	6.8%
Total	**$ 1,118**	**65.4%**	$ 959	67.9%	**$ 3,251**	**67.6%**	$ 3,107	71.1%

Labor and fringe benefits: Labor and fringe benefits includes wages, payroll taxes, and employee benefits such as incentive compensation, stock-based compensation, health and welfare, pensions and other post-employment benefits. These expenses increased by $51 million, or 12%, for the third quarter and $67 million, or 5%, for the first nine months of 2004 when compared to the same periods in 2003. The increase was attributable to the inclusion of GLT and BC Rail labor expense, $40 million for the quarter and $55 million for the nine-month period, higher wages and employee benefits, including increased costs for stock-based compensation, and charges and adjustments relating to the workforce reduction provision. Partly offsetting these factors were the translation impact of the stronger Canadian dollar, particularly in the first quarter of 2004, lower expenses for pensions and other post-retirement benefits and the effects of a reduced workforce. The first nine months of the year also benefited from wage and benefits savings during the CAW strike.

Purchased services and material: Purchased services and material primarily includes the costs of services purchased from outside contractors, materials used in the maintenance of the Company's track, facilities and equipment, transportation and lodging for train crew employees, utility costs and the net costs of operating facilities jointly used by the Company and other railroads. These costs increased by $39 million, or 26%, for the third quarter and $32 million, or 6%, for the first nine months of 2004 when compared to the same periods in 2003. The increase in the third quarter was mainly due to the inclusion of $29 million of GLT and BC Rail expenses, higher repair and maintenance expenses, and increased training costs, that were partly offset by the translation impact of the stronger Canadian dollar. The increase in the nine-month period was due to the inclusion of $46 million of GLT and BC Rail expenses, higher repair and maintenance expenses, partly related to the CAW strike, and other strike-related costs. Partly offsetting the increase was the translation impact of the stronger Canadian dollar and lower expenses for operating joint facilities.

Depreciation and amortization: Depreciation and amortization relates solely to the Company's rail operations. These expenses increased by $17 million,

or 13%, for the third quarter and $27 million, or 6%, for the first nine months of 2004 when compared to the same periods in 2003. The increase was mainly due to the inclusion of GLT and BC Rail expenses, $12 million for the quarter and $18 million for the nine-month period, and the impact of net capital additions, partially offset by the translation impact of the stronger Canadian dollar.

Fuel: Fuel expense includes the cost of fuel consumed by locomotives, intermodal equipment and other vehicles. These expenses increased by $32 million, or 32%, for the third quarter and $25 million, or 7%, for

the first nine months of 2004 when compared to the same periods in 2003. The increase was mainly due to a higher average price per gallon, net of the impact of the hedging program, higher volumes, and the inclusion of GLT and BC Rail expenses, $8 million for the quarter and $10 million for the nine-month period. The increase was partly offset by the translation impact of the stronger Canadian dollar and, a fuel excise tax refund in the second quarter.

Equipment rents: Equipment rents include rental expenses for the use of freight cars owned by other railroads or private companies and for the short or long-term lease of freight cars, locomotives and intermodal equipment, net of rental income from other railroads for the use of the Companys cars and locomotives. These expenses decreased by $5 million, or 7%, for the third quarter and $33 million, or 14%, for the first nine months of 2004 when compared to the same periods in 2003. The decrease was mainly due to higher car hire income, including that of BC Rail, the translation impact of the stronger Canadian dollar and a reduction in car hire expenses that were partly offset by higher lease expense for freight cars.

Casualty and other: Casualty and other includes expenses for personal injuries, environmental, freight and property damage, insurance, bad debt and operating taxes as well as travel and travel-related expenses. These expenses increased by $25 million, or 28%, for the third quarter and $26 million, or 9%, for the first nine months of 2004 when compared to the same periods in 2003. The increase in the third quarter was mainly due to higher expenses for personal injuries and the inclusion of GLT and BC Rail expenses. The increase in the first nine months of 2004 was due to higher expenses for personal injuries, the inclusion of GLT and BC Rail expenses, increased environmental expenses, favorable adjustments to U.S. property taxes in 2003, and strike-related travel expenses. Partially offsetting the increase was the translation impact of the stronger Canadian dollar.

Other

Interest expense: Interest expense for the third quarter of 2004 increased by $3 million, or 4%, from the comparable 2003 quarter and decreased by $25 million, or 10%, for the first nine months of 2004 versus the same 2003 period. Interest expense related to the issuance of new debt was partly offset in the third quarter, and more than offset in the nine-month period, by the benefit of lower interest rates on new debt to replace matured debt and the translation impact of the stronger Canadian dollar.

Other income (loss): In the third quarter and first nine months of 2004, the Company recorded a loss of $9 million and $45 million, respectively, compared to income of $13 million, respectively, in the same periods last year. The decrease in other income (loss) in both the quarter and nine-month period was due to lower gains on disposal of surplus properties. Lower equity income from the Companys investment in English Welsh and Scottish Railway (EWS) as a result of restructured operations also affected the decrease in the nine-month period ended 2004.

Income tax expense: The Company recorded income tax expense of $157 million for the third quarter of 2004 compared to $97 million in the corresponding 2003 period. For the nine-month period ended September 30, 2004, income tax expense was $415 million compared to $292 million for the same period in 2003. The effective tax rate for the third quarter and first nine months of 2004 was 31.2% and 32.0%, respectively. The effective tax rate for the third quarter and first nine months of 2003 was 24.8% and 28.2%, respectively. The increase in the effective tax rates in 2004 was mainly due to net favorable adjustments relating to the resolution of matters pertaining to prior years income taxes.

Summary of quarterly results - unaudited

In millions, except per share data

	2004			2003				2002
	Third	**Second**	**First**	**Fourth**	**Third**	**Second**	**First**	**Fourth** (1)
Revenues	$ 1,709	$ 1,665	$ 1,438	$ 1,512	$ 1,413	$ 1,463	$ 1,496	$ 1,547
Operating income	$ 591	$ 575	$ 395	$ 512	$ 454	$ 437	$ 374	$ 89
Net income	$ 346	$ 326	$ 210	$ 224	$ 294	$ 244	$ 252	$ 22
Basic earnings per share	$ 1.21	$ 1.14	$ 0.74	$ 0.79	$ 1.04	$ 0.85	$ 0.86	$ 0.07
Diluted earnings per share	$ 1.19	$ 1.13	$ 0.73	$ 0.78	$ 1.02	$ 0.84	$ 0.85	$ 0.07
Dividend declared per share	$ 0.195	$ 0.195	$ 0.195	$ 0.167	$ 0.167	$ 0.167	$ 0.167	$ 0.143

(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).

Liquidity and capital resources

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

Operating activities: Cash provided from operating activities for the three and nine months ended September 30, 2004 was $556 million and $1,451 million, respectively, compared to $526 million and $1,388 million, respectively, for the same periods in 2003. Net cash receipts from customers and others were $4,761 million for the nine months ended September 30, 2004

compared to $4,647 million in the same period of 2003. Payments for employee services, suppliers and other expenses were $2,754 million for the nine months ended September 30, 2004, an increase of $63 million from the comparative 2003 period. Also consuming cash in the first nine months of 2004, were payments for interest, workforce reductions and personal injury and other claims of $199 million, $81 million and $78 million, respectively, compared to $243 million, $121 million and $91 million, respectively in 2003. In 2004, pension contributions and payments for income taxes were $119 million and $79 million, respectively, compared to $43 million and $70 million, respectively in 2003.

As at September 30, 2004, the Company had outstanding information technology service contracts of $24 million.

Investing activities: Cash used by investing activities in the quarter and nine months ended September 30, 2004 amounted to $1,304 million and $2,069 million, respectively, compared to $307 million and $701 million for the comparable periods in 2003. The Company's investing activities in the first nine months of 2004 included $984 million related to the acquisition of BC Rail and $547 million related to the acquisition of GLT, net proceeds of $141 million from the EWS capital reorganization and $35 million from the sale of its Canac Inc. subsidiary. Net capital expenditures amounted to $323 million and $707 million in the three and nine months ended September 30, 2004, respectively, an increase of $14 million and $11 million from

the same 2003 periods. The following table details capital expenditures for the third quarter and first nine months of 2004 and 2003.

	Three months ended September 30		Nine months ended September 30	
In millions	**2004**	2003	**2004**	2003
Rail infrastructure	**$ 220**	$ 223	**$ 526**	$ 497
Rolling stock	**80**	31	**164**	102
Information technology and other	**85**	56	**130**	124
	385	310	**820**	723
Less: capital leases	**62**	1	**113**	27
Net capital expenditures	**$ 323**	$ 309	**$ 707**	$ 696

The Company expects that its capital expenditures will be approximately $1,250 million in 2004, an increase from 2003, due to capital programs related to recent acquisitions and an increase to the locomotive fleet. Capital expenditures include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at September 30, 2004, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives and other equipment at an aggregate cost of $175 million ($211 million at December 31, 2003).

Dividends: The Company paid a quarterly dividend of $0.195 per share amounting to $56 million for the third quarter and $167 million for the first nine months of 2004 compared to $48 million and $144 million, respectively, at the rate of $0.167 per share, for the same periods in 2003.

Free cash flow

The Company generated $167 million and $754 million of free cash flow for the three and nine months ended September 30, 2004, compared to $105 million and $455 million for the same 2003 periods. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. The Company defines free cash flow as cash provided from operating activities, excluding changes in the level of accounts receivable sold under the securitization program, less investing activities and dividends paid, and adjusted for significant acquisitions as they are not indicative of normal day-to-day investments in the Company's asset base, calculated as follows:

	Three months ended September 30		Nine months ended September 30	
In millions	**2004**	2003	**2004**	2003
Cash provided from operating activities	**$ 556**	$ 526	**$ 1,451**	$ 1,388
Less:				
Investing activities	**(1,304)**	(307)	**(2,069)**	(701)
Dividends paid	**(56)**	(48)	**(167)**	(144)
Cash provided (used) before financing activities	**(804)**	171	**(785)**	543
Adjustments:				
Change in accounts receivable sold	**(7)**	(66)	**8**	(88)
Acquisitions of BC Rail & GLT	**978**	-	**1,531**	-
Free cash flow	**$ 167**	$ 105	**$ 754**	$ 455

Financing activities: Cash provided from financing activities totaled $801 million for the third quarter and $787 million for the nine months ended September 30, 2004 compared to cash used by financing activities of $179 million and $446 million, respectively, for the same periods in 2003. In July 2004, the Company issued U.S.$300 million (Cdn$395 million) of 4.25% Notes due 2009 and U.S.$500 million (Cdn$658 million) of 6.25% Debentures due 2034. In March 2004, the Company had repaid U.S.$266 million (Cdn$355 million) of 7.00% 10-year Notes with cash on hand and the proceeds received from the issuance of commercial paper. In May 2003, the Company had repaid U.S.$150 million (Cdn$207 million) of 6.625% 10-year Notes and U.S.$100 million (Cdn$138 million) of 6.75% 10-year Notes with the proceeds received in March 2003 from the issuance of U.S.$400 million (Cdn$586 million) 4.40% Notes due 2013. In the third quarter and first nine months of 2004 and 2003, issuances and repayments of long-term debt related principally to the Company's commercial paper and revolving credit facility.

In 2003, the Company used $656 million to repurchase the remaining 10.0 million common shares under its 13.0 million share repurchase program. The total cost of the program was $859 million.

During the third quarter and first nine months of 2004, the Company recorded $62 million and $113 million, respectively, in capital lease obligations ($1 million and $27 million, respectively, for the comparable 2003 periods) related to new equipment and the exercise of purchase options on existing equipment.

The Company has access to various financing arrangements:

Revolving credit facility

The Company has a U.S.$1,000 million three-year revolving credit facility expiring in December 2005. The

credit facility provides for borrowings at various interest rates, plus applicable margins, and contains customary financial covenants with which the Company has been in full compliance. The Companys borrowings of U.S.$180 million (Cdn$233 million) outstanding at December 31, 2003 were entirely repaid in the first quarter of 2004. As at September 30, 2004, letters of credit under the revolving credit facility amounted to $344 million.

Commercial paper

The Company has a commercial paper program, which is backed by a portion of its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the U.S. dollar equivalent. Commercial paper debt is due within one year but is classified as long-term debt, reflecting the Companys intent and contractual ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the long-term revolving credit facility. As at September 30, 2004, the Company had outstanding borrowings of U.S.$266 million (Cdn$337 million) under the commercial paper program.

Shelf registration statement

On July 9, 2004, the Company issued U.S.$300 million (Cdn$395 million) of 4.25% Notes due 2009 and U.S.$500 million (Cdn$658 million) of 6.25% Debentures due 2034. The debt offering was made under the Companys shelf prospectus and registration statement filed in October 2003. Accordingly, the amount available under the shelf prospectus and registration statement has been reduced to U.S.$200 million. The Company used the net proceeds of U.S.$790 million to finance a portion of the acquisition costs of BC Rail and GLT.

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

Contractual obligations

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Companys contractual obligations for the following items as at September 30, 2004:

In millions	**Total**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 & thereafter**
Long-term debt obligations (a)	**$ 4,609**	$ 12	$ 481	$ 324	$ 63	$ 219	$ 3,510
Capital lease obligations (b)	**1,157**	47	120	87	125	48	730
Operating lease obligations	**1,037**	59	210	196	143	113	316
Purchase obligations (c)	**199**	127	62	8	2	-	-
Total obligations	**$ 7,002**	**$ 245**	**$ 873**	**$ 615**	**$ 333**	**$ 380**	**$ 4,556**

(a) Presented net of unamortized discounts, of which $819 million relates to a non-interest bearing Note due in 2094 assumed as part of the BC Rail acquisition and excludes capital lease obligations of $789 million which are included in Capital lease obligations.

(b) Includes $368 million of imputed interest on capital leases at rates ranging from approximately 2.23% to 13.13%.

(c) Includes commitments for railroad ties, rail, freight cars, locomotives and other equipment and outstanding information technology service contracts.

For 2004 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

CANADIAN NATIONAL RAILWAY COMPANY
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Acquisitions

BC Rail

In November 2003, the Company entered into an agreement with British Columbia Railway Company, a corporation owned by the Government of the Province of British Columbia (Province), to acquire all the issued and outstanding shares of BC Rail Ltd. and all the partnership units of BC Rail Partnership (collectively BC Rail), and the right to operate over BC Rails roadbed under a long-term lease, for a purchase price of $1 billion.

On July 2, 2004, the Company reached a consent agreement with Canadas Competition Bureau, allowing for the closing of the transaction, whereby the Company reaffirmed its commitment to share merger efficiencies with BC Rail shippers and assure them competitive transportation options through its Open Gateway Rate and Service Commitment. The consent agreement also maintains competitive rates and service for grain shippers in the Peace River region. On July 14, 2004, the Company completed its acquisition of BC Rail and began a phased integration of the companies operations. The acquisition was financed by debt and cash on hand.

The Company accounted for the acquisition using the purchase method of accounting as required by the Financial Accounting Standards Boards (FASB) SFAS No.141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of BC Rail as of July 14, 2004, the date of acquisition. The Companys cost to acquire BC Rail of $1,004 million includes purchase price adjustments and transaction costs. The preliminary purchase price allocation, based on the fair value of BC Rails assets, owned and leased, and liabilities acquired at acquisition, as presented in Note 2 Acquisitions, of the Companys interim consolidated financial statements, is subject to a final valuation, the impact of which, and any changes in accounting practices, are not expected to have a material effect on the results of operations.

Great Lakes Transportation LLCs Railroads and Related Holdings

In October 2003, the Company, through an indirect wholly owned subsidiary, entered into an agreement for the acquisition of Great Lakes Transportation LLCs railroads and related holdings (GLT) for a purchase price of U.S.$380 million.

In April 2004, the Company received all necessary regulatory approvals, including the U.S. Surface Transportation Board (STB) ruling rendered on April 9, 2004. On May 10, 2004, the Company completed its acquisition of GLT and began a phased integration of the companies operations. The acquisition was financed by debt and cash on hand.

The Company accounted for the acquisition using the purchase method of accounting. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of GLT as of May 10, 2004, the date of acquisition. The Companys cost to acquire GLT of U.S.$395 million (Cdn$547 million) includes purchase price adjustments and transaction costs. The preliminary purchase price allocation, based on the fair value of GLTs assets and liabilities acquired at acquisition, as presented in Note 2 Acquisitions, of the Companys interim consolidated financial statements, is subject to a final valuation, the impact of which, and any changes in accounting practices, are not expected to have a material effect on the results of operations.

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

Investment in English Welsh and Scottish Railway (EWS) Capital reorganization

On January 6, 2004, EWS shareholders approved a plan to reduce the EWS share capital to enable cash to be returned to the shareholders by offering them the ability to cancel a portion of their EWS shares. For each share cancelled, EWS shareholders would receive cash and 8% notes due in 2009, redeemable in whole or in part at any time by EWS, at their principal amount together with accrued but unpaid interest up to the date of repayment.

The Company elected to have the maximum allowable number of shares cancelled under the plan, thereby reducing its ownership interest of EWS to approximately 31% on a fully diluted basis (13.7 million shares) compared to approximately 37% on a fully diluted basis

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(43.7 million shares) prior to the capital reorganization. In the first quarter of 2004, the Company received £81.6 million (Cdn$199 million) from EWS, of which £23.9 million (Cdn$58 million) was in the form of EWS notes.

Off balance sheet arrangements

Accounts receivable securitization program

The Company has an accounts receivable securitization program, expiring in June 2006, under which it may sell, on a revolving basis, a maximum of $450 million of eligible freight trade and other receivables outstanding at any point in time, to an unrelated trust. The Company has a contingent residual interest of approximately 10% of receivables sold, which is recorded in Other current assets.

The Company is subject to customary reporting requirements for which failure to perform could result in termination of the program. In addition, the trust is subject to customary credit rating requirements, which if not met could also result in termination of the program. The Company is not currently aware of any trend, event or condition that would cause such termination.

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

At September 30, 2004, pursuant to the agreement, $436 million had been sold compared to $448 million at December 31, 2003.

Guarantees and indemnifications

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

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

The nature of these guarantees or indemnifications, the maximum potential amount of future payments, the carrying amount of the liability, if any, and the nature of any recourse provisions are disclosed in Note 8 Major commitments and contingencies of the Companys interim Consolidated Financial Statements.

Financial instruments

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

Fuel

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. At September 30, 2004, the Company had hedged approximately 56% of the estimated remaining 2004 fuel consumption, representing approximately 56 million U.S. gallons at an average price of U.S.$0.67 per U.S. gallon, 51% of the estimated 2005 fuel consumption, representing approximately 203 million U.S. gallons at an average price of U.S.$0.74 per U.S. gallon, and 17% of the estimated 2006 fuel consumption, representing 69 million U.S. gallons at an average price of U.S.$0.89 per U.S. gallon.

For the three months ended September 30, 2004, the Company realized a $32 million gain from its fuel hedging activities compared to a $10 million gain in the comparative quarter of 2003. For the first nine months of 2004, the Companys hedging activities resulted in a realized gain of $73 million compared to $37 million in the same period of 2003.

Other comprehensive income for the quarters ended September 30, 2004 and 2003 included an unrealized gain of $69 million, $47 million after tax, and an

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unrealized loss of $5 million, $3 million after tax, respectively. For the first nine months of 2004 and 2003, other comprehensive income included an unrealized gain of $112 million, $76 million after tax, and an unrealized loss of $6 million, $4 million after tax, respectively.

At September 30, 2004, Accumulated other comprehensive income included an unrealized gain of $150 million, $102 million after tax ($38 million unrealized gain, $26 million after tax at December 31, 2003), of which $123 million relates to derivative instruments that will mature within the next twelve months.

Interest rate

In anticipation of future debt issuances, the Company had entered into treasury lock transactions in the first quarter of 2004 for a notional amount of U.S.$380 million to fix the treasury component on these future debt issuances. Upon expiration in June 2004, these treasury rate locks were rolled into new contracts expiring in September 2004, at an average locked-in rate of 5.106%. The Company settled these treasury locks at a gain of U.S.$9 million (Cdn$12 million) upon the pricing of the U.S.$500 million 6.25% Debentures due 2034, subsequently issued on July 9, 2004. Beginning July 9, 2004, upon the issuance of debt, the realized gain of $12 million accumulated in other comprehensive income will be recorded into income, as a reduction of interest expense, over the term of the debt based on the interest payment schedule.

At September 30, 2004, Accumulated other comprehensive income included an unamortized gain of $12 million, $8 million after tax.

Common stock

Share repurchase program

On October 26, 2004, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 14 million common shares between November 1, 2004 and October 31, 2005 pursuant to a normal course issuer bid, at prevailing market prices.

Common stock split

On January 27, 2004, the Board of Directors of the Company approved a three-for-two common stock split which was effected in the form of a stock dividend of one-half additional common share of CN payable for each share held. The stock dividend was paid on February 27, 2004, to shareholders of record on February 23, 2004. All equity-based benefit plans were adjusted to reflect the issuance of additional shares or options due to the declaration of the stock split. All share and per share data has been adjusted to reflect the stock split.

Outstanding share data

As at October 25, 2004, the Company had 286.5 million common shares outstanding.

Critical accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from these estimates. The Companys policies for personal injury and other claims, environmental matters, depreciation lives, pensions and other post-retirement benefits, and income taxes, require managements more significant judgments and estimates in the preparation of the Companys consolidated financial statements and as such, are considered to be critical. The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Companys results of operations and financial position for the three years ended December 31, 2003, as well as the effect of changes to these estimates, can be found on pages 42 to 45 of the Companys 2003 Annual Report and has not changed materially since December 31, 2003. As at September 30, 2004 and December 31 and September 30, 2003, the Company had the following amounts outstanding:

In millions	**Sept. 30 2004**	December 31 2003	Sept. 30 2003
	(unaudited)		(unaudited)
Prepaid benefit cost for pensions	**$ 491**	$ 411	$ 373
Accrued benefit cost for pensions	**38**	-	-
Provision for personal injury and other claims	**649**	590	613
Provision for environmental costs	**117**	83	86
Net deferred income tax provision	**4,567**	4,425	4,366
Accrued benefit cost for post-retirement benefits other than pensions	**444**	290	289
Properties	**20,022**	18,305	18,478

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

Business risks

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

Competition

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

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

The significant consolidation of rail systems in the United States has resulted in larger rail systems that are able to offer seamless services in larger market areas and, accordingly, compete effectively with the Company in certain markets. This requires the Company to consider transactions that would similarly enhance its own service, such as its acquisitions of BC Rail and the GLT carriers. There can be no assurance that the Company will be able to compete effectively against current and future competitors in

the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No

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assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environmental matters

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

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

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

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

Personal injury and other claims

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to personal injuries, occupational disease and damage to property. The Company maintains provisions for such items, which it considers to be adequate for all of its outstanding or pending claims. The final outcome with respect to actions outstanding or pending at September 30, 2004, 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.

Labor negotiations

Canadian workforce

Labor agreements covering approximately 97% of the Company's Canadian unionized workforce expired on December 31, 2003. As of October 2004, the Company has successfully negotiated four collective agreements with the CAW, retroactive to January 1, 2004, covering the Company's shopcraft forces, clerical workers, intermodal yard employees and owner operators. Agreements were also reached with CN's Rail Traffic Controllers, Toronto Terminal employees and the Canadian Railway Police Association. The United Transportation Union (UTU), representing 20% of the unionized workforce in Canada, have filed for conciliation and the Minister of Labour appointed a conciliator on October 15, 2004. The role of the conciliator is to assist the parties in negotiating a new collective agreement. The conciliation process may take up to 60 days, although the parties may mutually agree to extend this time period. The parties do not acquire the right to strike or lockout, at the earliest, until 21 days after completing the conciliation process, and they must fulfill a number of legal requirements before exercising these rights, including giving at least 72 hours' notice of an impending strike or lockout. The Company is currently undergoing discussions with all its remaining trade unions, representing 40% of the unionized workforce in

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Canada, whose agreements also expired on December 31, 2003.

In the third quarter of 2004, the Company acquired BC Rail. The Canada Labour Code now governs this former provincial entity. Labor contracts remain in effect until either, the parties negotiate new collective agreements or, the parties agree to integrate the BC Rail employees into the Company's current bargaining structure. The Company is currently undergoing discussions with BC Rail Unions. In the absence of negotiated agreements, the Canadian Industrial Relations Board (CIRB) can determine whether the employees should be integrated into CN's bargaining structure.

In the first quarter of 2004, the Company's shopcraft forces, clerical workers and intermodal yard employees, represented by the CAW had rejected three tentative agreements signed by the CAW and the Company on January 23, 2004. The strike that ensued lasted one month and disrupted the Company's operations and affected operating income by approximately $35 million in the first quarter of 2004. There can be no assurance that the Company will be able to have all its collective agreements renewed and ratified without any other strikes or lockouts, or that such strikes or lockouts or the resolution of these collective bargaining negotiations will not have a material adverse effect on the Company's financial position or results of operations.

U.S. workforce

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

As of October 2004, the Company had in place agreements with bargaining units representing the entire unionized workforce at ICRR, GTW, DWP, CCP and GLT, and 93% of the unionized workforce at WC. Agreements in place have various moratorium provisions, ranging from the end of 2001 to the end of 2005, which preserve the status quo in respect of given areas during the terms of such moratoriums. Several of these agreements are currently under renegotiation and several will open for negotiation by the end of 2004.

Negotiations are ongoing with the bargaining units with which the Company does not have agreements or settlements. Until new agreements are reached or the processes of the Railway Labor Act have been exhausted, the terms and conditions of existing agreements or policies continue to apply. Although the Company does not anticipate work action related to these negotiations while they are

ongoing, there can be no assurance that there will not be any such work action and that the resolution of these negotiations will not have a material adverse effect on the Company's financial position or results of operations.

Regulation

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

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, issued its report to the Minister of Transport at the end of June 2001. The report was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes affecting all modes of transportation, including rail. On February 25, 2003, the Canadian Minister of Transport released its policy document *Straight Ahead – A Vision for Transportation in Canada* and tabled in the House of Commons Bill C-26 entitled *An Act to Amend the Canada Transportation Act and the Railway Safety Act, to enact the VIA Rail Canada Act and to make consequential amendments to other Acts*. Bill C-26 died on the Order Paper (was terminated) when Parliament

was prorogued on November 12, 2003. No assurance can be given that any future legislative action by the federal government pursuant to the report's recommendations and the policy document, or other future governmental initiatives will not materially adversely affect the Company's financial position or results of operations.

The U.S. Congress has had under consideration for several years various pieces of legislation that would increase federal economic regulation of the railroad industry. In addition, the STB is authorized by statute to commence regulatory proceedings if it deems them to be appropriate. No assurance can be given that any future regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations, or its competitive and financial position.

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

In October 2002, the Company became the first North American railroad to gain membership in the

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

The Company's ownership of the former Great Lakes Transportation vessels is subject to regulation by the U.S. Coast Guard and the Department of Transportation, Maritime Administration, which regulate the ownership and operation of vessels operating on the Great Lakes and in U.S. coastal waters. On February 4, 2004, the Maritime Administration and the U.S. Coast Guard issued a Joint Notice of Proposed Rulemaking, proposing modifications to the regulations governing vessel documentation for lease financing for vessels engaged in the coastwise trade. In addition, the U.S. Congress has from time to time considered modifications to the legislation governing the United States coastwise trade. As a result of maritime legislation enacted earlier this year, the regulations governing the Company's acquisition of these vessels should not be affected. No assurance can be given that any future legislative or regulatory initiatives by the U.S. federal government will not materially adversely affect the Company's operations, or its competitive and financial position.

Business prospects and other risks

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

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

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

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

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 Companys results are affected by fluctuations in the exchange rate between these currencies. Based on the Companys current operations, the estimated annual impact on net income of a year-over-year one-cent change in the Canadian dollar relative to the U.S. dollar is approximately $8 million. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Companys revenues and expenses.

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

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

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

Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2004, have concluded that the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its consolidated subsidiaries would have been made known to them. During the third quarter ending September 30, 2004, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Montreal, Canada
October 25, 2004

Item 3

Investor Services

Computershare Trust Company of Canada
1500 University Street
Suite 700
Montreal Quebec H3A 3S8
Telephone 1-800-332-0095
Facsimile 514-982-7580
Email: service@computershare.com
www.computershare.com

Canada
Australia
Channel Islands
Hong Kong
Ireland
New Zealand
Philippines
South Africa
United Kingdom
USA

Sean Finn
Senior Vice-President Public Affairs, Chief Legal Officer and Corporate Secretary
Canadian National Railway Company

935 de La Gauchetière Street West, 16th Floor
Montreal, Quebec
H3B 2M9

Re: Canadian National Railway Company - Common Shares
3rd Quarter 2004 Report - Quarterly Review

Dear Mr. Finn,

This letter will serve to confirm that on November 1, 2004 the following material was sent by prepaid mail to each registered shareholder of the above Corporation who requested to receive reports:

- 2004 3rd Quarter Report- Quarterly Review (English or French)

In addition, copies of the above-mentioned material were sent by prepaid mail on November 1, 2004, to beneficial shareholders that requested material in accordance with National Instrument 54-101.

Please do not hesitate to contact me if you have any questions or require additional information.

Yours truly,

COMPUTERSHARE TRUST COMPANY OF CANADA

Signed "Mark Thompson"

Mark Thompson
Relationship Manager
Stock Transfer Services

Item 4

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

I, E. Hunter Harrison, certify that:

(1) I have reviewed this report on Form 6-K of Canadian National Railway Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted pursuant to SEC Release Nos.33-8238 and 34-47986];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2004

(s) E. Hunter Harrison

E. Hunter Harrison
President and Chief Executive Officer

Item 5

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

I, Claude Mongeau, certify that:

(1) I have reviewed this report on Form 6-K of Canadian National Railway Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4)

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted pursuant to SEC Release Nos.33-8238 and 34-47986];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2004

(s) Claude Mongeau

Claude Mongeau
Executive Vice-President and Chief
Financial Officer

SIGNATURES

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

Canadian National Railway Company

Date: November 1, 2004

By: /s/ Sean Finn

Name: Sean Finn
Title: Senior Vice President Public Affairs, Chief Legal Officer and

Corporate Secretary