



North America's Railroad

NEWS RELEASE

CN reports Q1-2012 net income of C\$775 million, or C\$1.75 per diluted share

Excluding gain on sale of rail line segments, adjusted Q1-2012 net income was C\$523 million, or C\$1.18 per diluted share ⁽¹⁾

MONTREAL, April 23, 2012 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2012.

First-quarter 2012 highlights

- Net income for the first quarter of 2012 was C\$775 million, or C\$1.75 per diluted share, versus first-quarter 2011 net income of C\$668 million, or C\$1.45 per diluted share. The first-quarter 2012 results included an after-tax gain of C\$252 million, or C\$0.57 per diluted share, and the first quarter of 2011 included an after-tax gain of C\$254 million, or C\$0.55 per diluted share, from the sale of rail line segments in the Toronto area to a public transit agency.
- Excluding the gain on the sale of the rail line segments, adjusted diluted earnings per share (EPS) for first-quarter 2012 was C\$1.18, an increase of 31 per cent over adjusted diluted EPS of C\$0.90 for the same period of 2011. ⁽¹⁾
- Revenues increased 13 per cent to C\$2,346 million, while revenue ton-miles rose six per cent and carloadings increased five per cent.
- Operating income increased 23 per cent to C\$793 million.
- The operating ratio was 66.2 per cent, a 2.8-point improvement over the year-earlier first-quarter performance of 69.0 per cent.
- Free cash flow was C\$48 million, reflecting the impact of Q1-2012 voluntary pension plan contributions totalling C\$450 million, compared with free cash flow of C\$445 million for the same quarter of 2011. ⁽¹⁾

Claude Mongeau, president and chief executive officer, said: "While CN benefited from a milder winter and improving economic conditions, our very solid first-quarter results underscore that our strategy is working. The CN team executed well on all key fronts, delivering high-quality service while handling solid volume growth at low incremental cost.

"CN's commitment to operational and service excellence is the core driver of our strategy. It allows us to offer a more valuable transportation product that improves the supply chains we serve and helps our customers compete more effectively in their own markets."

Revised 2012 financial outlook ⁽²⁾

CN's strong first-quarter results and assumption of continued improvement in economic conditions have prompted a positive revision to the Company's 2012 financial outlook, first issued on Jan. 24, 2012.

Under its revised 2012 outlook, CN is aiming to:

- Deliver a full 10 per cent growth in diluted EPS, on an adjusted basis, over diluted EPS of C\$4.84 in 2011 despite significant headwinds from additional pension expense of approximately C\$100 million versus 2011. This compares with CN's prior 2012 diluted EPS growth forecast of up to 10 per cent, including headwinds from additional pension expense of approximately C\$120 million.
- Generate free cash flow of approximately C\$950 million, compared with the previous guidance in the order of C\$875 million. ⁽¹⁾

Mongeau said: "We believe our solid first-quarter performance and our clear focus on helping our customers succeed position us well to achieve this improved financial outlook for the year."

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN's first-quarter 2012 net income would have been lower by C\$4 million, or C\$0.01 per diluted share. ⁽¹⁾

First-quarter 2012 revenues, traffic volumes and expenses

The 13 per cent rise in first-quarter revenues mainly resulted from higher freight volumes, due in part to continuing improvements in North American and global economies, a milder winter, as well as the Company's performance above market conditions in a number of segments; the impact of a higher fuel surcharge resulting from year-over-year increases in applicable fuel prices and higher volumes; and freight rate increases.

Revenues increased for metals and minerals (31 per cent), coal (18 per cent), intermodal (17 per cent), petroleum and chemicals (15 per cent), automotive (13 per cent), and forest products (10 per cent). Grain and fertilizer revenues declined two per cent.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased six per cent from the year-earlier period.

Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased six per cent over the first quarter of 2011, driven by the impact of a higher fuel surcharge and freight rate increases, partly offset by an increase in the average length of haul.

Operating expenses for the first quarter increased by eight per cent to C\$1,553 million, mainly due to higher fuel costs as well as labor and fringe benefits expense. These factors were partly offset by lower casualty and other expense.

- (1) See discussion and reconciliation of non-GAAP adjusted performance-measures in the attached supplementary schedule, Non-GAAP Measures.
- (2) See Forward-Looking Statements for a summary of the key assumptions and risks regarding CN's 2012 outlook.

Forward-Looking Statements

Certain information included in this news release constitutes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, these forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. To the extent that CN has provided guidance that are non-GAAP financial measures, the Company may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results. Key assumptions used in determining forward-looking information are set forth below.

Key assumptions

CN, as referenced earlier in this news release, is revising the 2012 financial outlook that was first issued on Jan. 24, 2012, in a news release announcing the Company's fourth-quarter and full-year 2011 financial results.

Current assumptions

CN's revised 2012 financial outlook is based on a number of economic and market assumptions. The Company is forecasting that North American industrial production for 2012 will increase by about 3.5 per cent (up from three per cent previously forecast). CN also expects U.S. housing starts to be approximately 750,000 units (compared with 700,000 units) and U.S. motor vehicles sales to be approximately 14.5 million units (up from 13.5 million units) for the year. In addition, CN is assuming the 2012/2013 grain crops in both Canada and the U.S. will be in line with five-year averages. With respect to the 2011/2012 crop, U.S. corn and soybean production is projected to be slightly below -- and exports are projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts are projected to be moderately above the prior year's crop. With the assumptions above, CN also assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN assumes the Canadian-U.S. exchange rate to be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year to be in the range of US\$100 per barrel. In 2012, CN plans to invest approximately C\$1.8 billion in capital programs (up from C\$1.75 billion), of which more than C\$1 billion will be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company will invest in projects to support a number of productivity and growth initiatives.

Prior assumptions (as of Jan. 24, 2012)

The Company forecast that North American industrial production for 2012 would increase by about three per cent. CN also expected U.S. housing starts to be approximately 700,000 units and U.S. motor vehicles sales to be approximately 13.5 million units for the year. In addition, CN assumed the 2012/2013 grain crops in both Canada and the U.S. would be in line with five-year averages. With respect to the 2011/2012 crop, CN stated that U.S. corn and soybean production was slightly below -- and exports were projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts were moderately above the prior year's crop. With the assumptions above, CN also assumed carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN assumed the Canadian-U.S. exchange rate would be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year would be in the range of US\$100 per barrel. In 2012, CN said it planned to invest approximately C\$1.75 billion in capital programs, of which more than C\$1 billion would be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company said it planned to invest in projects to support a number of productivity and growth initiatives.

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labor negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of major risk factors.

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

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

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