



Canadian National Railway Company

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C\$0.83 (1) "

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Press Release

Item 1

North America's Railroad

NEWS RELEASE

CN reports Q2-2014 net income of C\$847 million,  
up 18 per cent from year-earlier net income of C\$717 million

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MONTREAL, July 21, 2014 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the second quarter and six-month period ended June 30, 2014.

Second-quarter 2014 financial highlights

- Net income was C\$847 million, or C\$1.03 per diluted share, compared with net income of C\$717 million, or C\$0.84 per diluted share, for the year-earlier quarter. The Q2-2013 results included a net gain of C\$13 million (C\$0.01 per diluted share) resulting from a gain on a non-monetary transaction with another railway that was partly offset by the effect of the enactment of higher provincial corporate income tax rates.
- Excluding the Q2-2013 net gain, Q2-2014 diluted EPS of C\$1.03 increased 24 per cent over last year's adjusted diluted EPS of C\$0.83. (1)
  - Operating income for the second-quarter of 2014 increased 21 per cent to C\$1,258 million.
- Second-quarter 2014 revenues increased 17 per cent to C\$3,116 million, revenue ton-miles grew by 14 per cent, and carloadings increased 11 per cent.
- CN's operating ratio for Q2-2014 improved by 1.3 points to 59.6 per cent from 60.9 per cent for the year-earlier quarter.
- Free cash flow for the first half of 2014 was C\$1,270 million, compared with C\$788 million for the year-earlier first half. (1)

Claude Mongeau, president and chief executive officer, said: "CN recovered swiftly from the first-quarter winter weather challenges – just as our customers would expect us to do – thanks to solid execution by our dedicated team of railroaders. CN delivered record volumes in the quarter by bringing its key supply chains back into sync and taking advantage of continued strength in several of our core markets. This solid operational recovery underscores our ability to accommodate growth at low incremental cost and to drive very strong financial results."

CN's Western Canada grain hopper car movements were particularly strong during the second quarter, up nearly 70 per cent from the year-earlier period. The Company expects such hopper car movements for the crop-year ending July 31, 2014, to be a new record and close to 25 per cent higher than average crop-year movements.

Mongeau said: “We are pleased that the Canadian grain supply chain CN serves is now back in sync. Our wait-list of customer grain car orders represents only about one week of shipments from the Prairies, and grain vessel line-ups at all ports are back to normal.”

#### Revised 2014 financial outlook (1) (2)

CN’s strong second-quarter results and continued growth opportunities in intermodal, bulk and merchandise markets have prompted a positive revision to the Company’s 2014 financial outlook. Under its revised 2014 outlook, CN now expects to:

- Deliver solid double-digit EPS growth in 2014 over adjusted diluted 2013 EPS of C\$3.06, compared with its earlier forecast of aiming for double-digit 2014 EPS growth, and
- Generate free cash flow in the range of C\$1.8 billion to C\$2 billion, compared with the earlier free cash flow projection of C\$1.6 billion to C\$1.7 billion for 2014. (1)

Mongeau said: “The continuing success of our agenda of Operational and Service Excellence positions CN 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 second-quarter 2014 net income would have been lower by C\$28 million, or C\$0.03 per diluted share. (1)

#### Second-quarter 2014 revenues, traffic volumes and expenses

Revenues for the second quarter of 2014 increased by 17 per cent to C\$3,116 million. Revenues increased for grain and fertilizers (35 per cent), metals and minerals (20 per cent), intermodal (17 per cent), petroleum and chemicals (17 per cent) automotive (15 per cent), forest products (nine per cent), and coal (five per cent).

The increase in revenues was mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets and market share gains, particularly in intermodal; the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; and freight rate increases.

Revenues in the second quarter of 2014 also benefited from increased volumes as the Company recovered from winter weather-related challenges that delayed shipments in the first quarter of 2014.

Carloadings for the second quarter rose 11 per cent to 1,463 thousand.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by 14 per cent over the year-earlier quarter. 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 by four per cent over the year-earlier period, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by an increase in the average length of haul.

Operating expenses for the quarter increased by 14 per cent to C\$1,858 million. That was mainly attributable to the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses, higher fuel costs, increased labor and fringe benefits expense and increased purchased services and material expense.

#### 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.

#### Current 2014 key assumptions

CN has made a number of economic and market assumptions in preparing its 2014 outlook. The Company is forecasting that North American industrial production for the year will increase by about three to four percent, compared with three per cent growth as stated in its first-quarter 2014 financial results news release issued on April 22, 2014. CN also expects U.S. housing starts to be in the range of one million units, down slightly from its April 22, 2014, forecast of 1.1 million units. CN is also assuming U.S. motor vehicles sales will be approximately 16 million units. In addition, CN is assuming 2014/2015 grain crops in Canada and the United States will be in-line with their respective five-year averages. With these assumptions, CN now assumes mid to high single-digit carload growth, compared with mid-single digit carload growth stated on April 22, 2014, along with continued pricing improvement above inflation. CN also assumes that the value of the Canadian dollar in U.S. currency will be in the range of \$0.90 to \$0.95 and the price of crude oil (West Texas Intermediate) to be in the range of US\$95-\$105 per barrel. In 2014, CN plans to invest approximately C\$2.25 billion in capital program, of which approximately C\$1.2 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. The capital program also includes funds for projects supporting growth and productivity.

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.

- 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 2014 outlook.

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CN is a true backbone of the economy, transporting approximately C\$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries -- serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., 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](http://www.cn.ca).

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## Consolidated Statement of Income - unaudited

## Item 2

| In millions, except per share data                 | Three months ended<br>June 30 |          | Six months ended<br>June 30 |          |
|--|-------------------------------|----------|-----------------------------|----------|
|  | 2014                          | 2013     | 2014                        | 2013     |
| Revenues   | \$ 3,116                      | \$ 2,666 | \$ 5,809                    | \$ 5,132 |
| <b>Operating expenses</b>                          |                               |          |                             |          |
| Labor and fringe benefits                          | 560                           | 498      | 1,147                       | 1,067    |
| Purchased services and material                    | 390                           | 341      | 778                         | 669      |
| Fuel   | 484                           | 402      | 952                         | 807      |
| Depreciation and amortization                      | 257                           | 250      | 513                         | 485      |
| Equipment rents                                    | 84                            | 68       | 161                         | 136      |
| Casualty and other                                 | 83                            | 65       | 180                         | 146      |
| Total operating expenses                           | 1,858                         | 1,624    | 3,731                       | 3,310    |
| Operating income                                   | 1,258                         | 1,042    | 2,078                       | 1,822    |
| Interest expense                                   | (91 )                         | (88 )    | (183 )                      | (177 )   |
| Other income (Note 3)                              | 2                             | 28       | 96                          | 70       |
| Income before income taxes                         | 1,169                         | 982      | 1,991                       | 1,715    |
| Income tax expense (Note 7)                        | (322 )                        | (265 )   | (521 )                      | (443 )   |
| Net income   | \$ 847                        | \$ 717   | \$ 1,470                    | \$ 1,272 |
| <b>Earnings per share (Note 10)</b>                |                               |          |                             |          |
| Basic  | \$ 1.03                       | \$ 0.85  | \$ 1.78                     | \$ 1.50  |
| Diluted  | \$ 1.03                       | \$ 0.84  | \$ 1.77                     | \$ 1.49  |
| <b>Weighted-average number of shares (Note 10)</b> |                               |          |                             |          |
| Basic  | 821.8                         | 846.1    | 824.9                       | 849.8    |
| Diluted  | 825.3                         | 849.1    | 828.3                       | 852.8    |

See accompanying notes to unaudited consolidated financial statements.