



North America's Railroad

NEWS RELEASE

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

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

Second-quarter 2009 highlights

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

CN's second-quarter 2009 net income included:

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

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

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

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

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

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

Second-quarter 2009 revenues, traffic volumes and expenses

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

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

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

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

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

Forward-Looking Statements

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

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

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

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Contacts:

Media

Mark Hallman
Director, Communications, Media
(905) 669-3384

Investment Community

Robert Noorigian
Vice-President, Investor Relations
(514) 399-0052