



North America's Railroad

NEWS RELEASE

CN reports Q2-2010 net income of C\$534 million, or C\$1.13 per diluted share -- up 38 per cent from year- earlier results

Company raises 2010 financial guidance on strong first-half results, expectation of continued economic recovery

MONTREAL, July 22, 2010 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the second quarter and first half ended June 30, 2010.

Second-quarter 2010 highlights

- Net income and diluted earnings per share (EPS) increased by 38 per cent from the year-earlier quarter to C\$534 million and C\$1.13, respectively.
- Diluted EPS of C\$1.13 increased by 49 per cent over adjusted diluted EPS of C\$0.76 for the second quarter of 2009. ⁽¹⁾
- Revenues rose 18 per cent to C\$2,093 million, while carloadings increased 27 per cent and revenue ton-miles rose 15 per cent.
- Operating income increased 39 per cent to C\$813 million.
- Operating ratio improved by 6.1 points to 61.2 per cent.
- Six-month free cash flow totalled C\$958 million, up from C\$463 million generated during the comparable period of 2009. ⁽¹⁾

Claude Mongeau, president and chief executive officer, said: "I am very pleased with our strong second-quarter 2010 earnings and free cash flow performance. We worked closely with our customers to help them grow their businesses and thereby increase our volumes, generating 27 per cent more carloads and 18 per cent more revenues in the quarter.

"CN's outstanding results were anchored on careful planning – having the right resources in place at the right time – improved customer service, and our team's strong execution of the CN Precision Railroading model. This performance allowed just a seven per cent increase in operating expenses and helped us to improve our operating ratio by more than six points to 61.2 per cent."

Net income for the first-half of 2010 was C\$1,045 million, or C\$2.21 per diluted share, up from C\$811 million, or C\$1.72 per diluted share, for the comparable period of 2009.

Adjusted diluted EPS for the first six months of 2010 was C\$1.93, compared with adjusted diluted EPS of C\$1.40 for the first half of 2009. ⁽¹⁾

Revised 2010 outlook ⁽²⁾

CN's strong first-half results and an expectation of a continued economic recovery this year have led the Company to revise its 2010 guidance upwards. CN now believes it has the scope to achieve an increase of approximately 25 per cent in 2010 adjusted diluted EPS over 2009 adjusted diluted EPS of C\$3.24. In addition, CN expects to achieve free cash flow for 2010 in the range of C\$1.1 billion. ⁽¹⁾ This revised free cash flow outlook is based on the Company's first-half performance, higher earnings forecast, proceeds from a Toronto rail-line sale in the first quarter, lower cash taxes, and expectation of making an additional voluntary pension plan contribution of approximately C\$250 million to improve the plan's funded status. ⁽³⁾

Mongeau said: "CN has successfully taken advantage of the stronger than expected economic recovery in the first half of 2010. We will continue to seize opportunities going forward by supporting our customers in improving the efficiency of their supply chains to help sustain their competitiveness in end markets."

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 2010 second-quarter and first-half net income would have been higher by approximately C\$35 million, or C\$0.07 per diluted share, and approximately C\$76 million, or C\$0.16 per diluted share, respectively. ⁽¹⁾

Second-quarter 2010 revenues, traffic volumes and expenses

The 18 per cent rise in second-quarter revenues mainly resulted from significantly higher freight volumes in all markets as a result of improving economic conditions in North America and globally; the impact of a higher fuel surcharge as a result of year-over-year increases in applicable fuel prices and higher volumes; and freight rate increases. These factors were partly offset by the negative translation impact of the stronger Canadian dollar on U.S.-dollar-denominated revenues.

Revenues increased for coal (40 per cent), automotive (39 per cent), metals and minerals (33 per cent), intermodal (25 per cent), forest products (six per cent), and petroleum and chemicals (six per cent). Revenues for grain and fertilizers declined one per cent.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased 15 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, remained flat on a percentage basis in the second quarter, largely owing to the impact of a higher fuel surcharge, freight rate increases and a decrease in the average length of haul that were offset by the negative translation impact of the stronger Canadian dollar.

Operating expenses for the second quarter of 2010 increased seven per cent, largely because of higher fuel costs, partially offset by the positive translation impact of the

stronger Canadian dollar on U.S.-dollar-denominated expenses and by productivity gains.

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

2) See Forward-Looking Statements below for a summary of the key assumptions and risks regarding CN's 2010 outlook.

3) See Note 5 – Pensions and other postretirement benefits to the accompanying unaudited Interim Consolidated Financial Statements.

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.

Key assumptions

CN is revising its 2010 outlook, first issued on Jan. 26, 2010, in the news release announcing the Company's fourth-quarter and full-year 2009 financial results, and subsequently amended in the Company's first-quarter 2010 financial results news release dated April 26, 2010.

Current 2010 outlook as of July 22, 2010

CN now believes it has the scope to achieve an increase of approximately 25 per cent in 2010 adjusted diluted EPS over 2009 adjusted diluted EPS of C\$3.24. In addition, CN expects to achieve free cash flow for 2010 in the range of C\$1.1 billion. This current outlook is based on the following assumptions: 2010 North American industrial production increasing in the range of five per cent; U.S. housing starts to be about 675,000 units; CN carload growth, in percentage terms, in the mid-teens, along with Company pricing improvement of about 3.5 per cent; a Canadian-U.S. exchange rate for 2010 in the range of C\$0.95 to par; the price of crude oil (West Texas Intermediate) to be in the range of US\$75 to US\$80 per barrel; and investment of approximately C\$1.6 billion in Company capital programs. In addition, CN expects that U.S. motor vehicle sales will be approximately 11.5 million units for 2010. Although the Company anticipates the 2010/2011 Canadian grain crop will be below the five-year average, its impact on 2010 results is expected to be modest. CN is also assuming a strong U.S. crop, and has benefited from a good carry-over stock from the 2009/2010 Canadian grain crop.

Previous outlook as of April 26, 2010

CN, in percentage terms, was aiming for solid double-digit growth in 2010 adjusted diluted EPS over adjusted diluted EPS of C\$3.24 in 2009, with free cash flow for 2010 in the order of C\$1 billion. This outlook was based on the following assumptions: 2010 North American industrial production increasing in the range of five per cent; U.S. housing starts to be about 675,000 units; low double-digit CN carload growth, along with Company pricing improvement of about 3.5 per cent; a Canadian-U.S. exchange rate for 2010 in the range of par; the price of crude oil (West Texas Intermediate) to be about US\$85 per barrel; and investment of approximately C\$1.6 billion in Company capital programs. In addition, CN expected that U.S. motor vehicle sales would be approximately 11.5 million units for 2010. The Company also assumed that the 2010/2011 Canadian grain crop would be in line with the five-year average, and that in 2010 the crop would be complemented by a good carry-over stock from 2009.

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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