NEWS RELEASE

CN reports Q4-2012 net income of C$610 million, or C$1.41 per diluted share

Adjusted diluted EPS for full-year 2012 increased 16 per cent to C$5.61 (1)

Full-year 2012 volumes and earnings highest in Company history


Fourth-quarter and full-year 2012 financial highlights

- Record fourth-quarter and full-year 2012 carloads, revenues and revenue ton-miles.
- Fourth-quarter 2012 net income was C$610 million, or C$1.41 per diluted share, compared with net income of C$592 million or, C$1.32 per diluted share, for the year-earlier quarter.
- Q4-2012 diluted earnings per share (EPS) of C$1.41 increased eight per cent over year-earlier adjusted diluted EPS of C$1.30 (adjusted net income of C$581 million), which excluded an income tax recovery. (1)
- Full-year 2012 net income was C$2,680 million, or C$6.12 per diluted share, compared with net income of C$2,457 million, or C$5.41 per diluted share, for 2011.
- Full-year 2012 adjusted diluted EPS increased 16 per cent to C$5.61, with adjusted 2012 net income of C$2,456 million versus adjusted net income of C$2,194 million in 2011. (1)
- Q4-2012 operating income increased 10 per cent to C$922 million, while full-year 2012 operating income rose 12 per cent to C$3,685 million.
- Fourth-quarter 2012 operating ratio improved by 1.1 points to 63.6 per cent; full-year 2012 operating ratio was 62.9 per cent, a 0.6-point improvement.
- 2012 free cash flow totalled C$1,006 million, after voluntary pension plan contributions of C$700 million, compared with free cash flow of C$1,175 million for 2011. (1)

Claude Mongeau, president and chief executive officer, said: “CN’s team of railroaders delivered impressive fourth-quarter results on the strength of a seven per cent increase in revenues, capping a very strong 2012 performance.

“Thanks to our supply chain collaboration focus and solid execution, CN’s growth last year continued to outpace that of the overall economy, generating the highest volumes and earnings in Company history.
“In 2012, we experienced strong growth in commodities related to oil and gas, particularly crude oil, and saw continued market share gains in overseas and domestic intermodal. CN also benefited from strong coal and petroleum coke exports, increased wheat and soybean exports, as well as higher lumber and panels shipments to the United States.”

**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 fourth-quarter 2012 net income would have been higher by C$11 million, or C$0.03 per diluted share, while its 2012 net income would have been lower by C$14 million, or C$0.03 per diluted share. (1)

**Positive 2013 outlook, increased dividend** (2)
Mongeau said: “For 2013, CN anticipates continued gradual improvement in the economy and further growth opportunities in intermodal, energy and other resource markets. Despite the challenge of an approximate C$150-million headwind related to increased pension expense and the impact of depreciation studies, CN is aiming for high single-digit growth in 2013 diluted earnings per share over adjusted diluted earnings per share of C$5.61 for 2012. CN also expects to generate 2013 free cash flow in the range of C$800 million to C$900 million, including a normalized, higher level of cash taxes. (1)

“Given CN’s strong balance sheet and its solid outlook for earnings and free cash flow generation, I am pleased to announce that the Company’s Board of Directors has approved a 15 per cent increase in CN’s 2013 quarterly common-share dividend.”

**Fourth-quarter 2012 revenues, traffic volumes and expenses**
Revenues for the fourth quarter of 2012 increased by seven per cent to C$2,534 million. Revenues increased for coal (15 per cent), petroleum and chemicals (13 per cent), grain and fertilizers (11 per cent), intermodal (seven per cent), and automotive (five per cent). Revenues declined for forest products (two per cent), and metals and minerals (one per cent).

Carloadings for the quarter rose three per cent to 1,270 thousand.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by eight 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, declined by one per cent.

Total operating expenses increased by five per cent to C$1,612 million.
Full-year 2012 revenues, traffic volumes and expenses
2012 revenues increased 10 per cent to C$9,920 million, with all business units registering gains: petroleum and chemicals (15 per cent), coal (15 per cent), metals and minerals (13 per cent), intermodal (11 per cent), automotive (11 per cent), forest products (five per cent), and grain and fertilizers (four per cent).

The rise in total revenues was largely attributable to higher freight volumes, due in part to growth in North American and Asian economies, and the Company’s performance above market conditions in a number of segments, as well as increased volumes in the second quarter as a result of a labor disruption at a key competitor; freight rate increases; the impact of a higher fuel surcharge as a result of year-over-year increases in applicable fuel prices and higher volumes; and the positive translation impact of the weaker Canadian dollar on U.S. dollar-denominated revenues.

Carloadings for the year increased four per cent to 5,059 thousand.

Revenue ton-miles increased by seven per cent over 2011, while rail freight revenue per revenue ton-mile increased by three per cent.

Total operating expenses for 2012 increased by nine per cent to C$6,235 million, mainly due to higher labor and fringe benefits expense, increased purchased services and material expense, as well as increased fuel costs.

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 has made a number of economic and market assumptions in preparing its 2013 outlook. The Company is forecasting that North American industrial production for the year will increase by about 2.0 per cent. CN also expects U.S. housing starts to be in the range of 950,000 units and U.S. motor vehicles sales to be approximately 15 million units. In addition, CN is assuming that 2013/2014 grain crop production in both Canada and the U.S. will be in-line with their respective five-year averages. With respect to the 2012/2013 crop, production in Canada was slightly above the five-year average while production in the U.S. was below the five-year average. With these assumptions, CN assumes carload growth of three to four per cent, along with continued pricing improvement above inflation. CN also assumes the Canadian-U.S. exchange rate to be around parity for 2013 and that the price of crude oil (West Texas Intermediate) for the year to be in the range of US$90-$100 per barrel. In 2013, CN plans to invest approximately C$1.9 billion in capital programs, 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.
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 2013 outlook.

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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