

Canadian National Railway Company

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North America's Railroad

NEWS RELEASE

CN reports Q3-2014 net income of C\$853 million, up 21 per cent from year-earlier net income of C\$705 million

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CN generated record quarterly revenues and improved operating ratio to 58.8 per cent

MONTREAL, Oct. 21, 2014 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the third quarter and nine-month period ended Sept. 30, 2014.

Third-quarter and nine-month 2014 financial highlights

- Net income was C\$853 million, or C\$1.04 per diluted share, compared with net income of C\$705 million, or C\$0.84 per diluted share, for the year-earlier quarter. The Q3-2013 results included a C\$19-million (C\$0.02 per diluted share) income tax expense resulting from the enactment of higher provincial corporate income tax rates.
- Excluding the above Q3-2013 income tax expense, Q3-2014 diluted EPS of C\$1.04 increased 21 per cent over last year's adjusted diluted EPS of C\$0.86. (1)
 - Operating income for the third quarter of 2014 increased 19 per cent to C\$1,286 million.
- Third-quarter 2014 revenues and carloadings set all-time quarterly records, with revenues rising 16 per cent to C\$3,118 million and carloadings increasing 11 per cent to 1,475 thousand. Revenue ton-miles grew by 13 per cent.
- CN's operating ratio for Q3-2014 improved by one point to 58.8 per cent from 59.8 per cent for the year-earlier quarter.
- Free cash flow for the first nine months of 2014 was C\$2,045 million, up from C\$1,307 million for the comparable period of 2013. (1)

Claude Mongeau, president and chief executive officer, said: "CN delivered outstanding third-quarter financial results while improving customer service levels and maintaining industry-leading operating efficiencies. Solid execution by our team of railroaders enabled us to accommodate the significantly higher freight volume generated by a record Canadian grain crop, strong energy markets, and new business, particularly in intermodal and automotive.

"The results underscore CN's commitment to investing ahead of the curve in resources and rail infrastructure and playing our role as a true backbone of the economy."

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 third-quarter 2014 net income would have been lower by C\$22 million, or C\$0.03 per diluted share. (1)

Third-quarter 2014 revenues, traffic volumes and expenses

Revenues for the third quarter of 2014 increased by 16 per cent to an all-time quarterly high of C\$3,118 million. Revenues increased for grain and fertilizers (29 per cent), petroleum and chemicals (21 per cent), metals and minerals (17 per cent), automotive (17 per cent), intermodal (14 per cent), and forest products (eight per cent). Coal revenues declined by three per cent.

The increase in revenues was mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets, particularly crude oil and frac sand, new intermodal business including temporary diversions from U.S. west coast ports, as well as new automotive business; the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; and freight rate increases.

Carloadings for the third quarter rose 11 per cent to 1,475 thousand, an all-time record quarterly performance.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by 13 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 two 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\$1,832 million. The increase was mainly attributable to increased purchased services and material expense, increased labor and fringe benefits expense, the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses and higher fuel costs.

Forward-Looking Statements (2)

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.

Financial outlook and 2014 key assumptions

CN maintains the 2014 financial outlook it issued on July 21, 2014. The Company expects to deliver solid double-digit EPS growth in 2014 over adjusted diluted 2013 EPS of C\$3.06, and to generate free cash flow in the range of C\$1.8 billion to C\$2 billion, excluding major asset sales.

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, and that U.S. housing starts will be in the range of one million units. CN is also assuming U.S. motor vehicles sales will be approximately 16 million units. In addition, CN is assuming the 2014/2015 grain crop in Canada will be in-line with the five-year average, and is now assuming the 2014/2015 grain crop in the U.S. will be above the five-year average. With these assumptions, CN assumes mid to high single-digit carload growth 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 on average for the full-year 2014. In 2014, CN plans to invest approximately C\$2.25 billion in its 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.

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.

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Consolidated Statement of Income - unaudited
Item 2

In millions, except per share data	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenues	\$ 3,118	\$ 2,698	\$ 8,927	\$ 7,830
Operating expenses				
Labor and fringe benefits	580	521	1,727	1,588
Purchased services and material	378	318	1,156	987
Fuel	446	390	1,398	1,197
Depreciation and amortization	258	241	771	726
Equipment rents	83	68	244	204
Casualty and other	87	76	267	222
Total operating expenses	1,832	1,614	5,563	4,924
Operating income	1,286	1,084	3,364	2,906
Interest expense	(94)	(89)	(277)	(266)
Other income (loss) (Note 3)	(2)	5	94	75
Income before income taxes	1,190	1,000	3,181	2,715
Income tax expense (Note 7)	(337)	(295)	(858)	(738)
Net income	\$ 853	\$ 705	\$ 2,323	\$ 1,977
Earnings per share (Note 10)				
Basic	\$ 1.04	\$ 0.84	\$ 2.83	\$ 2.34
Diluted	\$ 1.04	\$ 0.84	\$ 2.81	\$ 2.33
Weighted-average number of shares (Note 10)				
Basic	817.0	839.3	822.2	846.2
Diluted	820.9	842.2	825.8	849.2

See accompanying notes to unaudited consolidated financial statements.