



# Third Quarter 2012 Financial Results

October 22, 2012



## FORWARD-LOOKING STATEMENTS



The financial results in this presentation were determined on the basis of U.S. GAAP. Please refer to the website [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP) for the reconciliation of certain non-GAAP measures to comparable GAAP measures. To the extent we have provided guidance which are non-GAAP financial measures, we may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results.

Certain information included in this presentation 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 used in determining forward-looking information are set forth below.

### **Key assumptions**

*CN remains comfortable with the 2012 financial guidance issued on July 25, 2012, in its second-quarter 2012 financial and operational results news release. CN expects to deliver up to 15 per cent growth in adjusted diluted EPS for 2012, over adjusted diluted EPS of C\$4.84 in 2011. Also, CN expects to generate free cash flow of approximately C\$1 billion for 2012 – taking into consideration a potential C\$250 million additional voluntary pension contribution in the fourth quarter.<sup>(1)</sup>*

*CN's 2012 outlook is based on a number of economic and market assumptions. The Company is forecasting that North American industrial production for 2012 will increase by about 3.0 per cent. For the year, CN also expects U.S. housing starts to be approximately 750,000 units, and U.S. motor vehicles sales to be approximately 14.5 million units. In addition, CN is assuming the 2012/2013 U.S. grain crop will be well below, and the 2012/2013 Canadian grain crop will be slightly higher, than the five-year average. With the assumptions above, CN assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN also assumes the Canadian-U.S. exchange rate to be around parity for 2012 and that the price of crude oil (West Texas Intermediate) for the year to be approximately US\$95 per barrel. In 2012, CN plans to invest approximately C\$1.8 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.*

<sup>(1)</sup> Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation and/or reconciliation of these non-GAAP measures



# Claude Mongeau

## President and Chief Executive Officer



- Revenues up 7% at constant currency <sup>(1)</sup>
- Operating ratio at 60.6%
- Diluted EPS of \$1.52, up 10% on adjusted basis <sup>(1)</sup>
- YTD Free cash flow of \$1,036M <sup>(1)</sup>

Solid third-quarter performance



<sup>(1)</sup> Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation and/or reconciliation of these non-GAAP measures.



**Keith Creel**  
**Executive Vice-President and Chief Operating Officer**

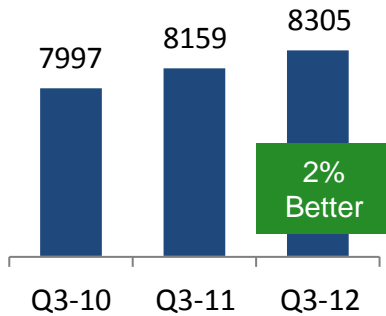




# Q3 Operating Highlights

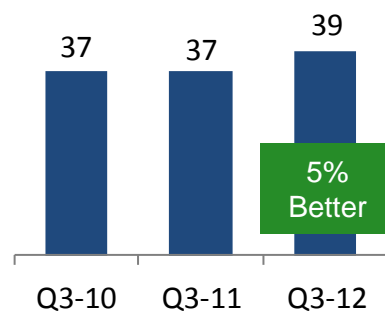
## Train Productivity

(GTM's per train mile)



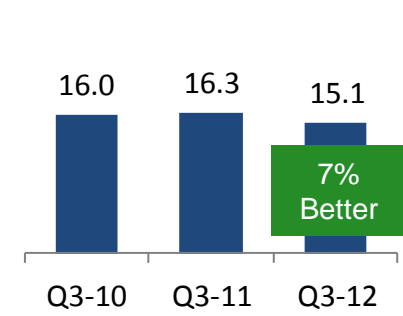
## Yard Throughput

(Cars per yard switching hour)



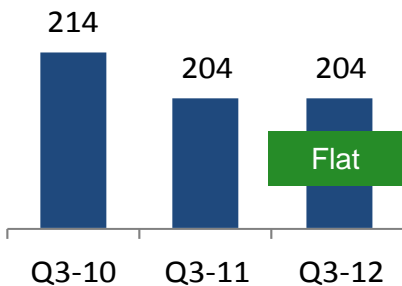
## Terminal Dwell

(Entire railroad, hours)



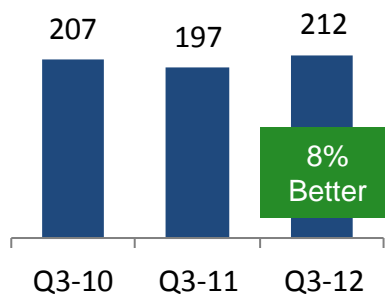
## Locomotive Utilization

(Trailing GTM's per total horsepower)



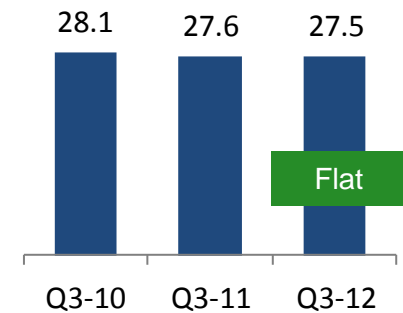
## Car Velocity

(Car miles per day)



## Train Velocity

(mph)

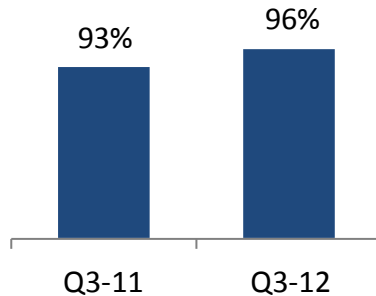


Solid performance on our key operating metrics

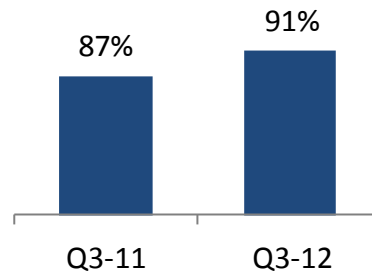
# Q3 Service Highlights

- Leveraging our supply chain collaboration agreements
- Launching CN's Service Exception Notification initiative (iAdvise)

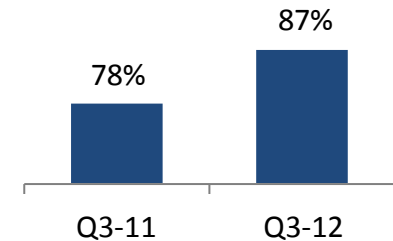
**Car Order Fulfillment**  
(Merchandise – net of rejections)



**Switch Window Compliance**  
(Placement in promised window)



**Grain Spotting Performance**  
(Placement on day promised)



Operational and Service Excellence



# Jean-Jacques Ruest

## Executive Vice-President and Chief Marketing Officer





# Q3 Revenues

*In millions of Canadian dollars, unless otherwise indicated*

	As Reported		% Change Favorable (Unfavorable)	% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)
	2012	2011		
Petroleum and chemicals	\$ 416	\$ 361	15%	14%
Metals and minerals	293	274	7%	5%
Forest products	336	325	3%	2%
Automotive	127	117	9%	7%
Coal	187	166	13%	11%
Grain and fertilizers	368	336	10%	9%
Intermodal	510	480	6%	6%
Total rail freight revenues	\$ 2,237	\$ 2,059	9%	8%
Other revenues	260	248	5%	4%
Total revenues	\$ 2,497	\$ 2,307	8%	7%

<sup>(1)</sup> Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.

# Intermodal

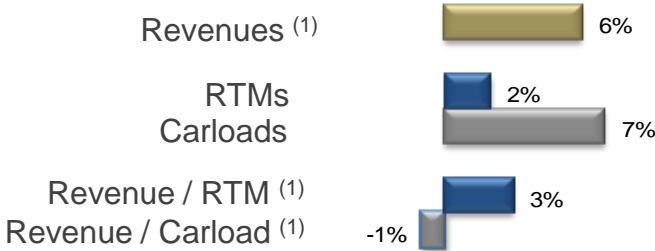


## RTM / Carload Drivers

- Continued long haul traffic growth; domestic and international

**Growth in both RTMs and carloads**

## Third Quarter (2012 vs 2011)



## Outlook

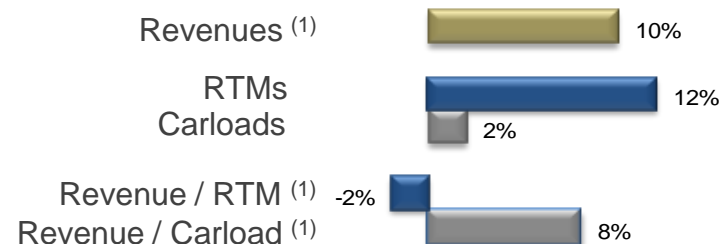
- Continue to gain traction with customers
  - True supply-chain enabler
  - Leading train velocity performance
- New innovative products / new geographic services / new customers

<sup>(1)</sup> Revenues at constant currency - Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.

# Bulk



## Third Quarter (2012 vs 2011)



### RTM / Carload Drivers

- Less short haul U.S. utility coal (less than 200 miles)
- More long haul exports of thermal coal and petroleum coke (more than 700 miles)

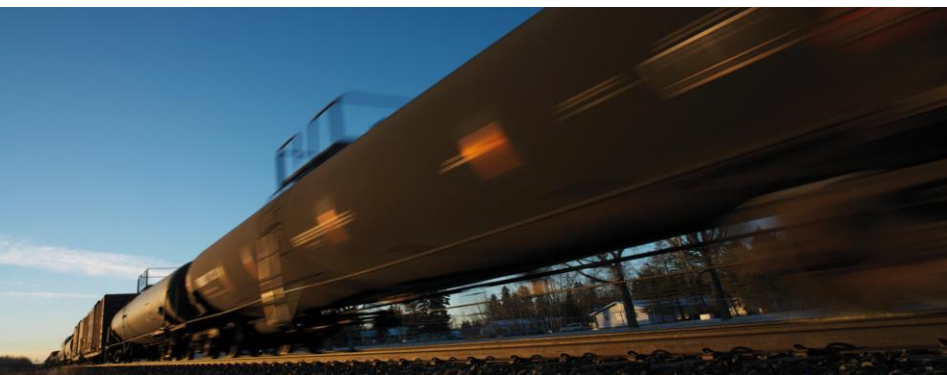
### Outlook

- Canadian grain running flat out
- CN looking to offset U.S. grain crop weakness with commercial initiatives
- Softer Asian steel -- flat metallurgical coal exports
- Strong exports of U.S. thermal coal and Canadian petroleum coke
- CN potash carloads will be strong

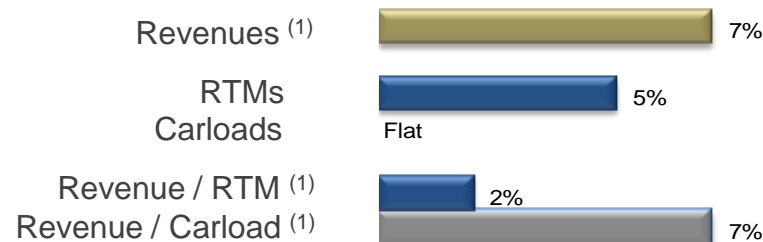
RTMs – Better volume indicator

<sup>(1)</sup> Revenues at constant currency - Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.

# Manufacturing



## Third Quarter (2012 vs 2011)



### RTM / Carload Drivers

- Less short haul iron ore (less than 100 miles)
- More long haul crude oil by rail (more than 1,500 miles)
- More long haul lumber / panels to the U.S.

### Outlook

- U.S. housing market continues to improve
- Strong energy-related carloads (crude, frac sand, energy-related steel)
- Lower metal carloads (steel and non-ferrous metals)
- Flat pulp and automotive outlook

RTMs – Better volume indicator

<sup>(1)</sup> Revenues at constant currency - Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.



# Luc Jobin

## Executive Vice-President and Chief Financial Officer



# Q3 Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	<b>2012</b>	2011	Change Favorable (Unfavorable)
Revenues	<b>\$ 2,497</b>	\$ 2,307	8%
Operating expenses	<b>1,512</b>	1,369	
Operating income	<b>985</b>	938	5%
Interest expense	<b>(84)</b>	(85)	
Other income	<b>18</b>	70	
Income before income taxes	<b>919</b>	923	
Income tax expense	<b>(255)</b>	(264)	
Net income	<b>\$ 664</b>	\$ 659	1%
Diluted EPS	<b>\$ 1.52</b>	\$ 1.46	4%
Adjusted diluted EPS <sup>(1)</sup>	<b>\$ 1.52</b>	\$ 1.38	10%
Shares (diluted in millions)	<b>435.9</b>	451.4	
Operating ratio	<b>60.6%</b>	59.3%	(1.3) pts

<sup>(1)</sup> 2011 excludes an item that affects the comparability of the results of operations.  
Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for a reconciliation of this non-GAAP measure.



## Q3 Operating Expenses

*In millions of Canadian dollars, unless otherwise indicated*

	As Reported		% Change Favorable (Unfavorable)	% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)
	2012	2011		
Labor and fringe benefits	\$ 476	\$ 396	(20%)	(20%)
Purchased services and material	304	271	(12%)	(11%)
Fuel	369	350	(5%)	(4%)
Depreciation and amortization	227	218	(4%)	(4%)
Equipment rents	64	60	(7%)	(5%)
Casualty and other	72	74	3%	4%
Total operating expenses	\$ 1,512	\$ 1,369	(10%)	(10%)

<sup>(1)</sup> Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.



# YTD 2012 Free Cash Flow

*In millions of Canadian dollars, unless otherwise indicated*

Net income	\$ 2,070
Non-cash adjustments	737
Payments for income taxes	(139)
Other working capital items	(332)
Capital expenditures (net)	(1,121)
Major asset sales	311
Other investing <sup>(1)</sup>	5
Dividends	(491)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	(4)
Free cash flow	<u>\$ 1,036</u>
Financing activities (excluding dividends)	<u>\$ (943)</u>
Total net indebtedness at end of period (including restricted cash and cash equivalents)	<u>\$ 5,755</u>
Adjusted debt-to-total capitalization <sup>(2)</sup>	38.1%
Adjusted debt-to-adjusted EBITDA <sup>(2) (3)</sup>	1.53x

*(1) Excludes changes in restricted cash and cash equivalents.*

*(2) Debt adjusted to include the present value of operating lease commitments.*

*(3) EBITDA refers to earnings before interest, income taxes, depreciation and amortization, and is adjusted to exclude Other income and the deemed interest on operating leases.*

*Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for a reconciliation of the various non-GAAP measures presented on this slide.*



- Solid agenda of value-creation
  - CN Board has approved a C\$1.4B share repurchase program
  
- Challenging end of year, but reaffirming 2012 guidance
  - Aiming to deliver up to 15% growth over 2011 on adjusted diluted EPS <sup>(1)</sup>
  - Free cash flow of approximately C\$1B <sup>(1)</sup>, taking into consideration a potential C\$250M additional pension contribution
  
- Too early to provide 2013 outlook
  - Cautious about the strength of the economy
  - Facing pension and other accounting headwinds
  - Will provide guidance on Q4 earnings call

*(1) Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation and/or reconciliation of these non-GAAP measures.*



# Claude Mongeau

## President and Chief Executive Officer



- Proud of our strong Q3 results
- Gaining momentum with our agenda
- Delivering solid shareholder value

