

Second Quarter 2013 Financial Results



July 22, 2013

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 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.

Current assumptions

CN maintains the 2013 financial outlook it issued on Jan. 22, 2013, as well as its plan to invest approximately C\$2 billion in capital programs in 2013, which it revised upward from C\$1.9 billion on April 22, 2013. Approximately C\$1.1 billion of the total expenditure 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.

CN 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 two per cent. CN also expects U.S. housing starts to be approximately 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 these assumptions, CN now assumes carload growth of two to three per cent, down from three to four per cent, along with continued pricing improvement above inflation. CN also now assumes the Canadian-U.S. exchange rate to be in the range of C\$0.95-C\$1.00 for 2013, versus the previous assumption of around parity, and that the price of crude oil (West Texas Intermediate) for the year to be in the range of US\$90-\$100 per barrel.

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.



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SUPPLY CHAIN

Claude Mongeau

President and CEO



Q2 Highlights



Solid top line growth

- revenue up 4% at constant currency

Accommodated growth at low incremental cost

- adjusted EPS up 11%

Solid free cash flow generation

**Strong team execution
-- steady improvement trend**

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Jim Vena

Executive Vice President and COO

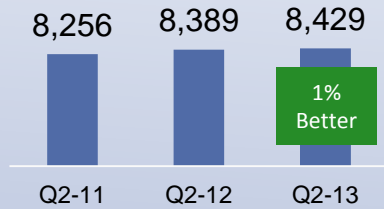




Q2 Operating Highlights

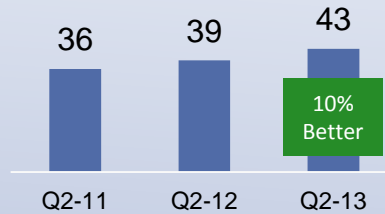
Train Productivity

(GTMs per train mile)



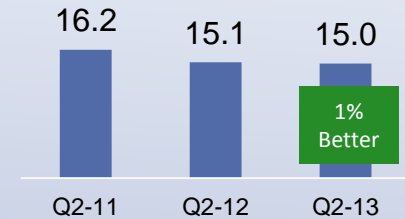
Yard Productivity

(Cars per yard switching hour)



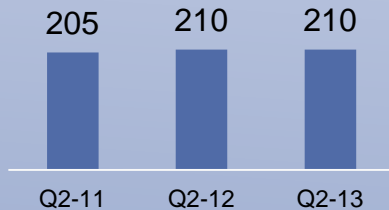
Terminal Dwell

(Entire railroad, hours)



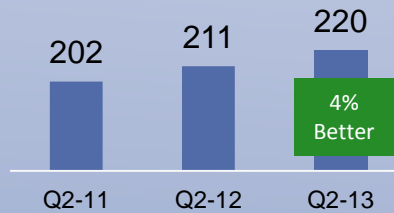
Locomotive Utilization

(Trailing GTMs per total horsepower)



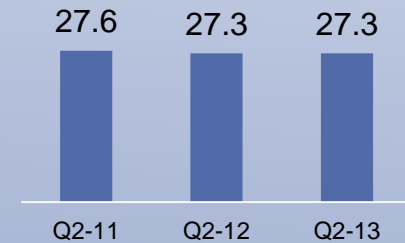
Car Velocity

(Car miles per day)



Train Velocity

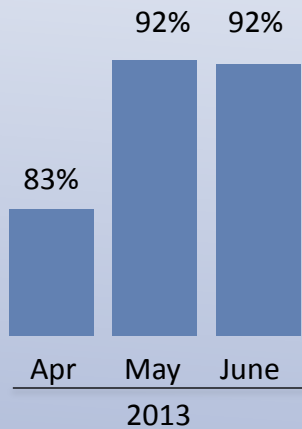
(mph)



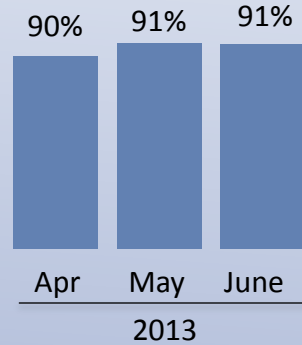
Solid operating metrics

Balancing Operational and Service Excellence

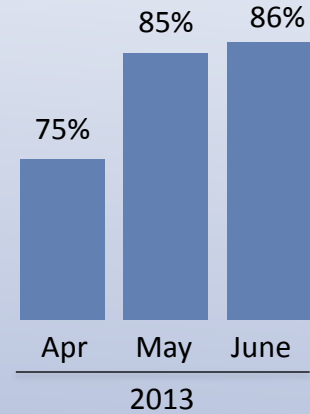
Weekly Car Order Fulfillment
(Merchandise – net of rejections)



Switch Window Compliance
(Placement in promised window)



Grain Spotting Performance
(Placement on day promised)



Steadily improving

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Jean-Jacques Ruest

Executive Vice President and CMO



Q2 Revenues

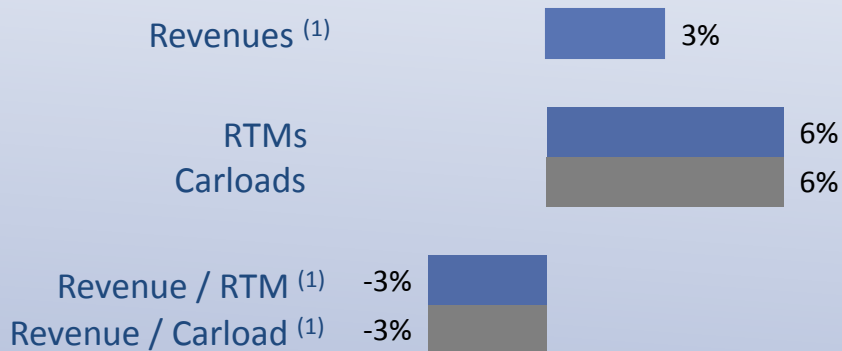
In millions of Canadian dollars, unless otherwise indicated

	As Reported		% Change Favorable (Unfavorable)	% Change at constant currency ⁽¹⁾ Favorable (Unfavorable)
	2013	2012		
Petroleum and chemicals	\$ 478	\$ 405	18%	17%
Metals and minerals	304	293	4%	3%
Forest products	358	344	4%	3%
Automotive	148	153	(3%)	(4%)
Coal	187	187	-	(1%)
Grain and fertilizers	383	366	5%	4%
Intermodal	543	526	3%	3%
Total rail freight revenues	\$ 2,401	\$ 2,274	6%	5%
Other revenues	265	269	(1%)	(2%)
Total revenues	\$ 2,666	\$ 2,543	5%	4%

⁽¹⁾ Please see website, www.cn.ca/nonGAAP, for an explanation of this non-GAAP measure.

Intermodal Markets

Second Quarter (2013 vs 2012)



Q2 Highlights

Strong gains at the Port of Vancouver partly offset by weakness through Prince Rupert

Sell One CN and strong service performance driving gains in domestic

Yield impacted by a lower fuel surcharge and mix changes

Outlook

Facing some mixed markets

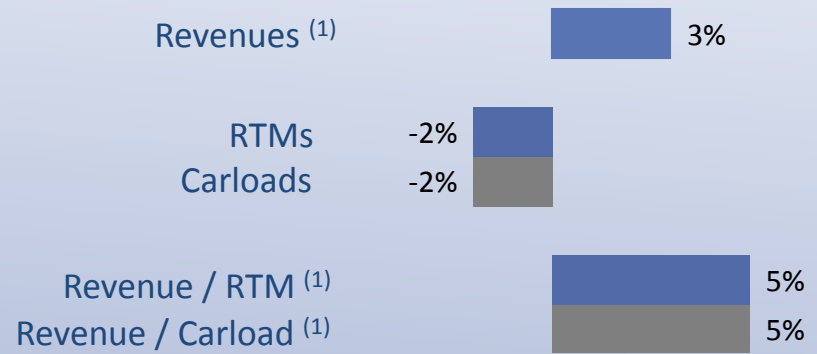
Driving continued over-performance versus the economy with new terminals, new products and an intense focus on end-to-end service



⁽¹⁾ Revenues at constant currency - Please see website, www.cn.ca/nonGAAP, for an explanation of this non-GAAP measure.

Bulk Markets

Second Quarter (2013 vs 2012)



Q2 Highlights

Strong potash and fertilizer volumes driven by share gains and an improved market

Increased pet coke exports largely offset by weakness in thermal coal markets

Grain shipments lower after strong volumes in the first half of the crop year

Outlook

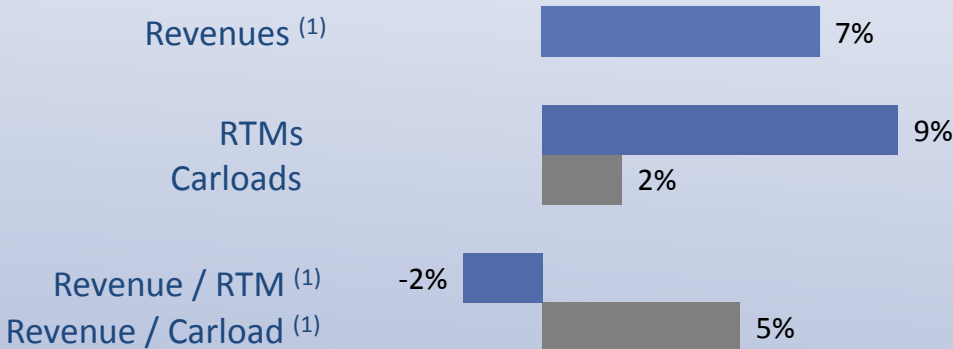
Expect negative volumes to persist in the face of challenging markets and difficult year-over-year comparables



⁽¹⁾ Revenues at constant currency - Please see website, www.cn.ca/nonGAAP, for an explanation of this non-GAAP measure.

Manufacturing Markets

Second Quarter (2013 vs 2012)



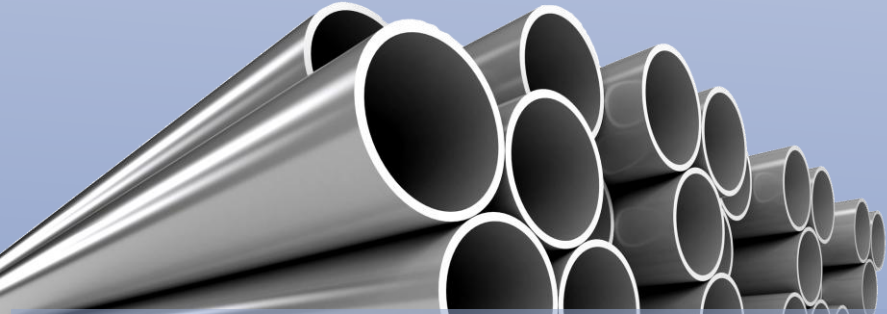
Q2 Highlights

Strong energy markets and the continued recovery in U.S. housing drove growth in long-haul crude, frac sand, lumber and panels

Continued weakness in pulp and paper and in steel and related products

Outlook

Expect second quarter trends to continue



⁽¹⁾ Revenues at constant currency - Please see website, www.cn.ca/nonGAAP, for an explanation of this non-GAAP measure.

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Luc Jobin

Executive Vice President and CFO



Q2 Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	2013	2012	Change Favorable (Unfavorable)
Revenues	\$ 2,666	\$ 2,543	5%
Operating expenses	<u>1,624</u>	<u>1,558</u>	
Operating income	1,042	985	6%
Interest expense	(88)	(86)	
Other income	<u>28</u>	<u>9</u>	
Income before income taxes	982	908	
Income tax expense	<u>(265)</u>	<u>(277)</u>	
Net income	<u>\$ 717</u>	<u>\$ 631</u>	14%
Diluted EPS	\$ 1.69	\$ 1.44	17%
Adjusted diluted EPS ⁽¹⁾	\$ 1.66	\$ 1.50	11%
Weighted-average number of shares (diluted in millions)	424.6	439.5	
Operating ratio	60.9%	61.3%	0.4 pt

⁽¹⁾ 2013 and 2012 exclude items that affect the comparability of the results of operations.
Please see website, www.cn.ca/nonGAAP, for a reconciliation of this non-GAAP measure.



Q2 Operating Expenses

<i>In millions of Canadian dollars, unless otherwise indicated</i>	As Reported		% Change Favorable (Unfavorable)	% Change at constant currency ⁽¹⁾ Favorable (Unfavorable)
	2013	2012		
Labor and fringe benefits	\$ 498	\$ 504	1%	2%
Purchased services and material	341	305	(12%)	(11%)
Fuel	402	379	(6%)	(5%)
Depreciation and amortization	250	230	(9%)	(8%)
Equipment rents	68	59	(15%)	(14%)
Casualty and other	65	81	20%	21%
Total operating expenses	\$ 1,624	\$ 1,558	(4%)	(3%)

⁽¹⁾ Please see website, www.cn.ca/nonGAAP, for an explanation of this non-GAAP measure.

YTD Q2 Free Cash Flow

In millions of Canadian dollars, unless otherwise indicated

Net income	\$ 1,272
Non-cash adjustments	572
Payments for income taxes	(456)
Other working capital items	(4)
Cash flow from operations	1,384
Capital expenditures (net)	(646)
Major asset sales	52
Other investing	22
Cash flow from investing	(572)
Cash flow before financing / dividends	812
Dividends	(365)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	14
Change in restricted cash and cash equivalents	(24)
Free cash flow	\$ 437
Total net indebtedness at end of period (including restricted cash and cash equivalents)	\$ 6,879
Adjusted debt-to-total capitalization ⁽¹⁾	41.5%
Adjusted debt-to-adjusted EBITDA ^{(1) (2)}	1.71x

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

(2) 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.



2013 Financial Outlook

Maintaining financial outlook despite slower volume growth

Aiming for high single-digit growth in 2013 diluted EPS over adjusted diluted EPS of C\$5.61 in 2012 ⁽¹⁾

Targeting free cash flow in the range of C\$800M to C\$900M

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

Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors underlying CN's 2013 financial outlook.

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Claude Mongeau

President and CEO





Balancing Operational and Service Excellence

Solid momentum in place

Pursuing growth opportunities and tightly managing costs

Gearing up to meet our full-year outlook

