



# First Quarter 2015 Financial Results

April 20, 2015





# 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 that CN has provided non-GAAP financial measures in its outlook, the Company 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.

## **2015 key assumptions**

*CN has made a number of economic and market assumptions in preparing its 2015 outlook. The Company is now assuming that North American industrial production for the year will increase by approximately three per cent, compared with its Jan. 27, 2015, assumption of three to four per cent, that U.S. housing starts will be in the range of 1.2 million units, and that U.S. motor vehicles sales will be approximately 16.7 million units. The 2014/2015 Canadian grain crop represented a significant reduction toward the historical trend line while the U.S. grain crop was above trend. CN assumes that the 2015/2016 grain crops in both Canada and the United States will be in line with trend yields. CN also assumes its 2015 customer shipments of energy-related commodities, namely crude oil and frac sand, will grow by approximately 40,000 carloads versus 2014, compared with its previous assumption announced on Jan. 27, 2015, of 75,000-carload growth for the two commodities in 2015 versus 2014. With these assumptions, CN assumes total carload growth for all freight categories in 2015 will be approximately three per cent, compared with its Jan. 27, 2015, forecast of three to four per cent growth, along with continued pricing improvement above inflation. CN also now assumes that in 2015 the value of the Canadian dollar in U.S. currency will be approximately \$0.80, compared with the Jan. 27, 2015, assumption of \$0.80 to \$0.85, and that the average price of crude oil (West Texas Intermediate) will fluctuate around US\$50 per barrel. In 2015, CN plans to invest approximately C\$2.7 billion in its capital program, of which approximately C\$1.4 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. The 2015 capital program, which CN previously set at C\$2.6 billion, with C\$1.3 billion earmarked for network safety and integrity, 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.





Claude Mongeau  
President & Chief Executive Officer



# Q1 Highlights

## Driving top line growth

- End-to-end supply chain mindset
- Disciplined inflation-plus pricing

## Balancing Operational and Service Excellence

- Fluid, resilient network
- Enabling growth at low incremental cost

## Strong financial results

- Diluted EPS up 30% on adjusted basis
- C\$521M of free cash flow

Solid start to the year





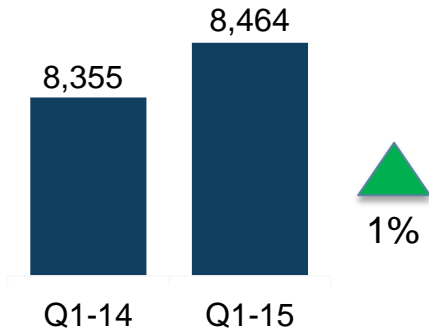


Jim Vena  
Executive VP & Chief Operating Officer

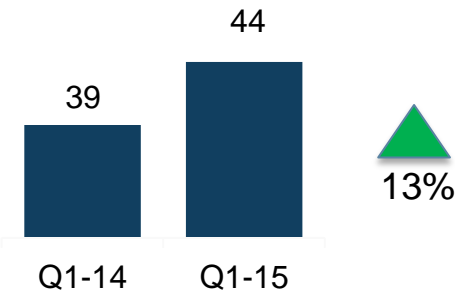


# Q1 Operating Highlights

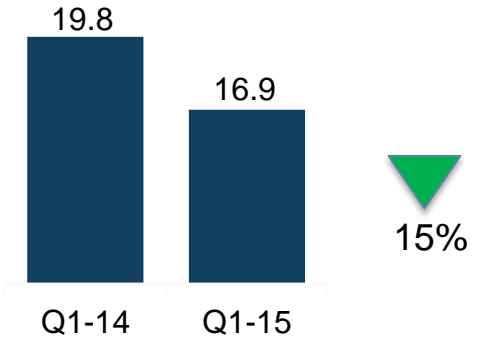
Train Productivity  
(GTM per train mile)



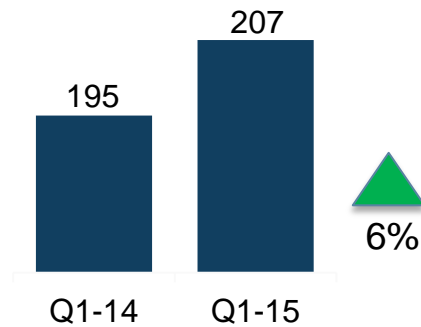
Yard Productivity  
(Cars per yard switching hour)



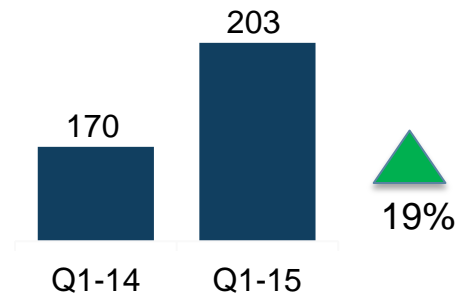
Terminal Dwell  
(Entire railroad, hours)



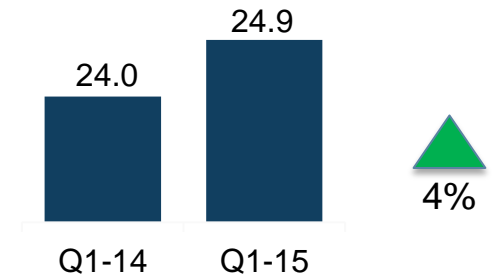
Locomotive Utilization  
(Trailing GTMs per total horsepower)



Car Velocity  
(Car miles per day)



Train Velocity  
(mph)



Driving a culture of teamwork and performance





# Keys to Operational and Service Excellence

Keeping safety the top priority

Focusing on customer needs

Lining up the capacity to grow

Pursuing productivity initiatives

Supporting profitable, sustainable growth







JJ Ruest  
Executive VP & Chief Marketing Officer





# Solid Top Line Performance

Revenues +15%

RTMs +7%

¢ / RTMs +8%

Carloads +9%

\$ / Carload +6%

## Bulk

Grain & Fertilizers

Coal

## Merchandise

Petroleum & Chemicals

Forest Products

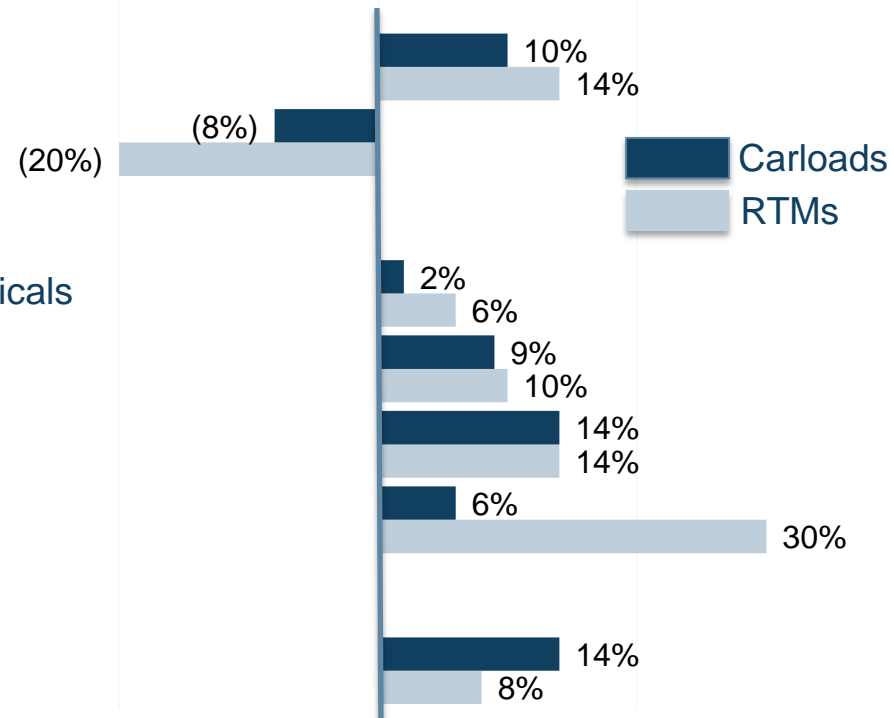
Metals & Minerals

Automotive

## Intermodal

## Volumes

% change – favorable (unfavorable)



Leveraging a great franchise and a well diversified portfolio



## Bulk

- Canadian grain supply chain fully back in sync -- expect negative comps in Q2 and Q3
- Sustained global demand for Canadian potash
- Expect coal volumes to remain under pressure

22%

## Merchandise

- Reducing energy carload growth this year to 40,000 from 75,000 (crude and frac sand)
- Positive outlook for lumber and panels supported by improved railcar supply and housing starts
- Positive outlook for automotive and petroleum and chemicals

52%

## Intermodal

- Growth in both domestic and international segments
- Providing competitive service offering that continues to attract customers
- Longer term visibility – port expansions at Prince Rupert and Montreal – new terminal in Greater Toronto

22%

2015 Q1 revenue breakdown – Other revenues represent the remaining 4%

Aiming for carload growth of ~3% and pricing ahead of inflation







Luc Jobin  
Executive VP and Chief Financial Officer



# Q1 Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	<b>2015</b>	2014	Change Favorable (Unfavorable)
Revenues	<b>\$ 3,098</b>	\$ 2,693	15%
Operating expenses	<b>2,035</b>	1,873	
Operating income	<b>1,063</b>	820	30%
Interest expense	<b>(104)</b>	(92)	
Other income	<b>4</b>	94	
Income before income taxes	<b>963</b>	822	
Income tax expense	<b>(259)</b>	(199)	
Net income	<b>\$ 704</b>	\$ 623	13%
Diluted EPS	<b>\$ 0.86</b>	\$ 0.75	15%
Adjusted diluted EPS <sup>(1)</sup>	<b>\$ 0.86</b>	\$ 0.66	30%
Weighted-average diluted number of shares (in millions)	<b>814.3</b>	831.3	
Operating ratio	<b>65.7%</b>	69.6%	3.9 pts

Delivering on our strategic agenda

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





# Q1 Operating Expenses

<i>In millions of Canadian dollars, unless otherwise indicated</i>	<b>2015</b>	<b>2014</b>	<b>% Change Favorable (Unfavorable)</b>	<b>% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)</b>
Labor and fringe benefits	\$ 668	\$ 587	(14%)	(9%)
Purchased services and material	457	388	(18%)	(12%)
Fuel	361	468	23%	31%
Depreciation and amortization	296	256	(16%)	(11%)
Equipment rents	94	77	(22%)	(12%)
Casualty and other	159	97	(64%)	(56%)
Total operating expenses	\$ 2,035	\$ 1,873	(9%)	(2%)

Supporting growth at low incremental cost

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



# YTD Free Cash Flow

*In millions of Canadian dollars, unless otherwise indicated*

**2015**

Net income	\$ 704
Non-cash adjustments	366
Payments for income taxes	(228)
Other working capital items	<u>150</u>
<b>Net cash provided by operating activities</b>	<b>992</b>
Capital expenditures (net)	(468)
Major asset sales	-
Other investing	<u>(13)</u>
<b>Net cash used in investing activities</b>	<b>(481)</b>
<b>Net cash provided before financing activities</b>	<b>511</b>
Change in restricted cash and cash equivalents	<u>10</u>
<b>Free cash flow</b>	<b>\$ 521</b>
<b>Total net indebtedness at end of period (including restricted cash and cash equivalents)</b>	<b>\$ 8,752</b>
<b>Adjusted debt-to-total capitalization ratio <sup>(1)</sup></b>	<b>42.2%</b>
<b>Adjusted debt-to-adjusted EBITDA <sup>(1) (2)</sup></b>	<b>1.68x</b>

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

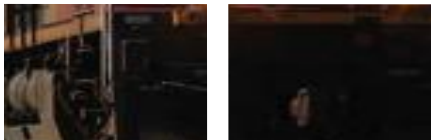
(2) EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, and is adjusted to exclude Other income and the deemed interest on operating leases.

Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of the various non-GAAP measures.





# Affirming 2015 Financial Outlook



Double-digit earnings growth over 2014 adjusted diluted EPS of C\$3.76 <sup>(1)</sup>

- Aiming for carload growth of approximately 3%
- Pricing above inflation

Reinvesting in the business for safety, growth and productivity

- Increasing our 2015 capital envelope by C\$100M to C\$2.7B
- Reflects additional funding for rail safety infrastructure

Rewarding shareholders

- Steady share buyback in place
- 25% dividend increase and gradually moving towards a 35% payout ratio

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

Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors underlying CN's 2015 financial outlook.



Claude Mongeau  
President & Chief Executive Officer





# Delivering on Our Strategic Agenda

**BALANCING  
OPERATIONAL  
AND SERVICE  
EXCELLENCE**

**ACTIVELY  
ENGAGING  
STAKEHOLDERS**

**BUILDING  
FOR THE FUTURE**

**DELIVERING  
SUPERIOR  
GROWTH AT LOW  
INCREMENTAL COST**

**BUILDING  
A SOLID TEAM OF  
RAILROADERS**

Continued shareholder value creation