



# Fourth Quarter 2012 Financial Results

January 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](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 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.*



# Claude Mongeau

## President and Chief Executive Officer



- Revenues up 8% at constant currency <sup>(1)</sup>
- Operating ratio at 63.6%
- Diluted EPS of \$1.41, up 8% on adjusted basis <sup>(1)</sup>
- Full-year free cash flow of \$1,006M <sup>(1)</sup>



<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.

- Outpaced the economy with record volumes and earnings
  - End-to-end supply chain approach
  - CustomerFIRST initiatives
- Balancing Operational and Service Excellence
  - Supporting growth at low incremental cost
- Continuing to execute on our strategic agenda
  - Delivering solid shareholder value





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

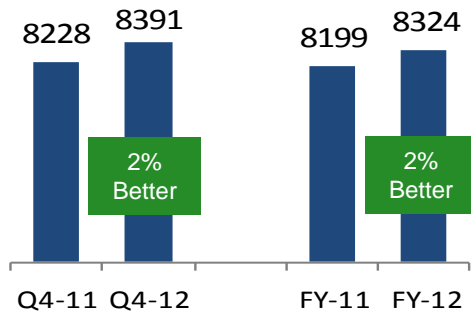




# Operating Highlights

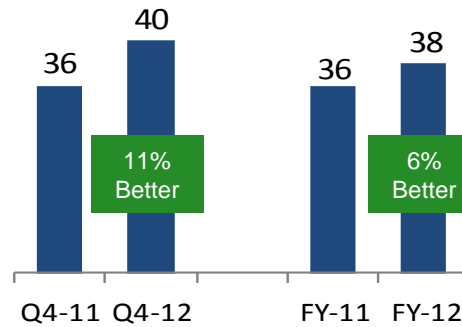
## Train Productivity

(GTM per train mile)



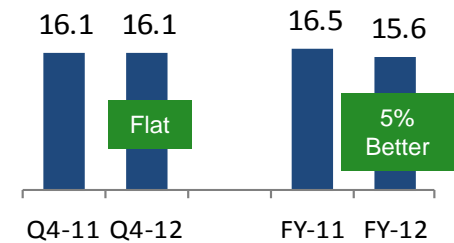
## Yard Throughput

(Cars per yard switching hour)



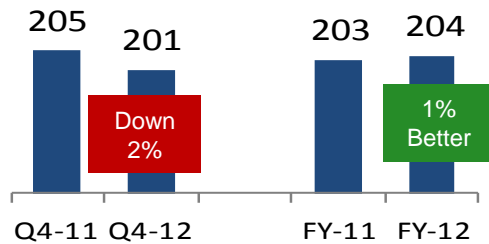
## Terminal Dwell

(Entire railroad, hours)



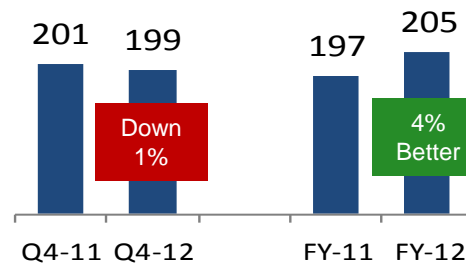
## Locomotive Utilization

(Trailing GTMs per total horsepower)



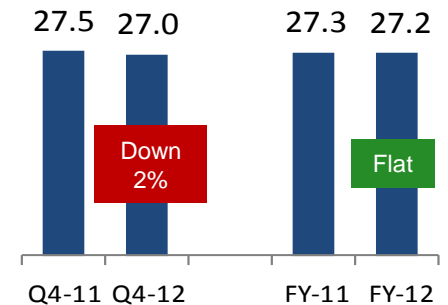
## Car Velocity

(Car miles per day)



## Train Velocity

(mph)

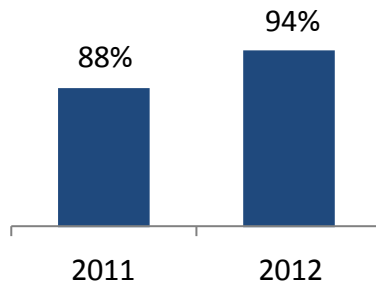


Relentless focus on productivity

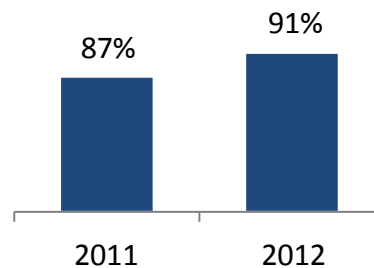
# Service Highlights

- Focused on driving reliable end-to-end performance
- Enhanced communication channels
- Efforts are delivering clear results
  - Record West Coast grain unloads in Q4
  - Major growth in Intermodal
  - Well positioned to handle further growth

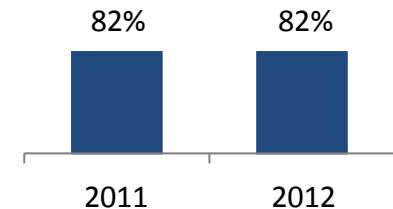
**Weekly Car Order Fulfillment**  
(Merchandise – net of rejections)



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



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



Helping our customers win in their markets





# Jean-Jacques Ruest

## Executive Vice-President and Chief Marketing Officer



# Revenues

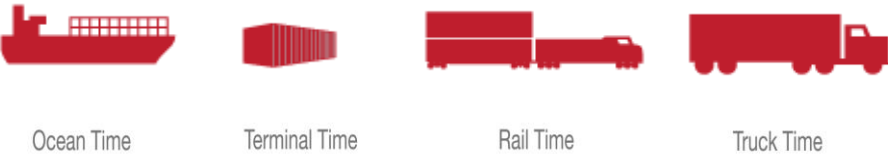
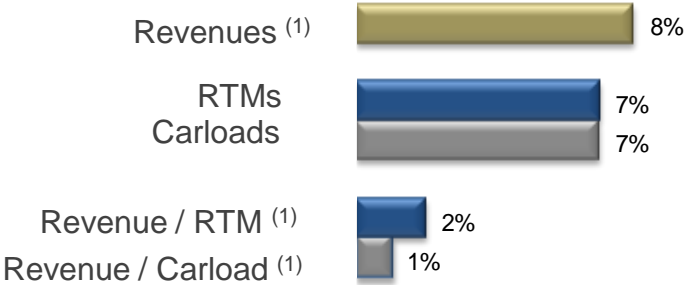
<i>In millions of Canadian dollars, unless otherwise indicated</i>	Fourth Quarter				Full Year	
	As Reported		% Change Favorable (Unfavorable)	% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)	As Reported	% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)
	2012	2011			2012	
Petroleum and chemicals	\$ 427	\$ 377	13%	16%	\$ 1,640	15%
Metals and minerals	274	278	(1%)	1%	1,133	12%
Forest products	323	329	(2%)	-	1,331	4%
Automotive	128	122	5%	7%	538	10%
Coal	171	149	15%	17%	712	15%
Grain and fertilizers	459	413	11%	13%	1,590	4%
Intermodal	498	464	7%	8%	1,994	11%
Total rail freight revenues	\$ 2,280	\$ 2,132	7%	9%	\$ 8,938	10%
Other revenues	254	245	4%	5%	982	6%
Total revenues	\$ 2,534	\$ 2,377	7%	8%	\$ 9,920	9%

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

# Intermodal



## Fourth Quarter (2012 vs 2011)



### REDEFINING TRANSPORTATION TIME



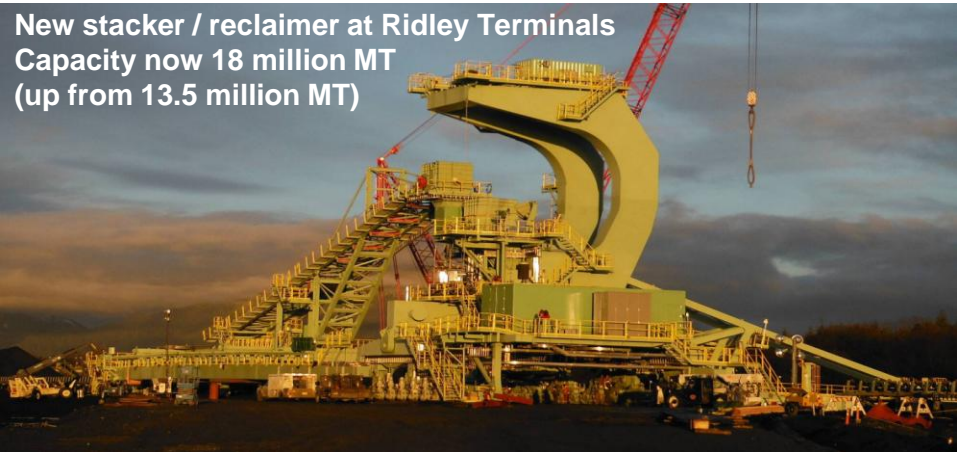
## Outlook

- New services
- New terminals
- New customers

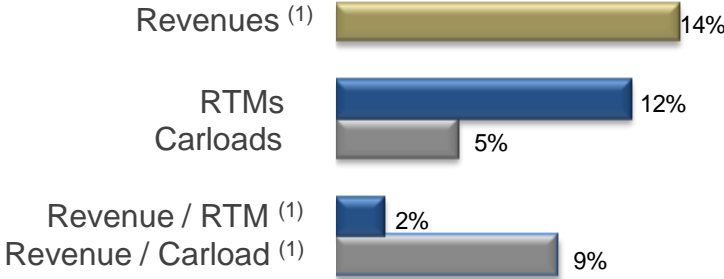
<sup>(1)</sup> Revenues at constant currency - Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.

# Bulk

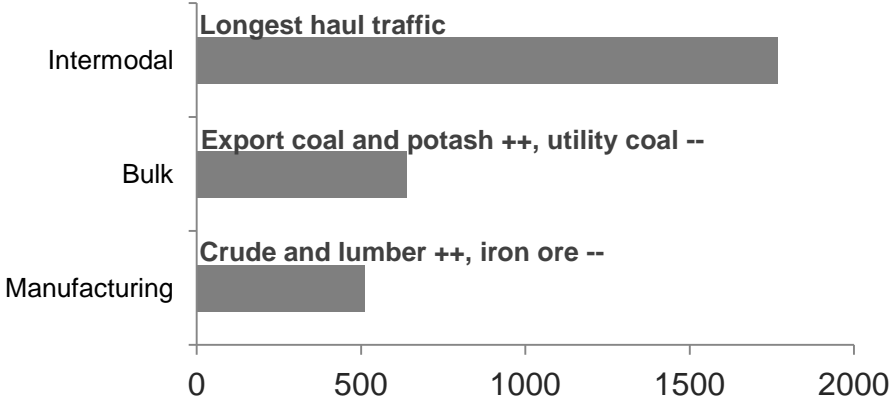
New stacker / reclaimer at Ridley Terminals  
Capacity now 18 million MT  
(up from 13.5 million MT)



## Fourth Quarter (2012 vs 2011)



## Focusing on long-haul traffic



## Outlook

- Continued growth in metallurgical and thermal coal exports
  - Weakness in U.S. utility coal persists
- Solid gains in petroleum coke
- Strengthening potash market

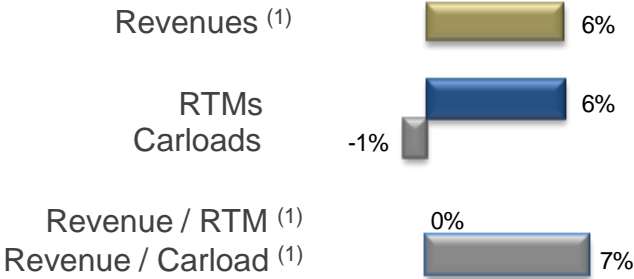
<sup>(1)</sup> Revenues at constant currency - Please see website, [www.cn.ca/nonGAAP](http://www.cn.ca/nonGAAP), for an explanation of this non-GAAP measure.

# Manufacturing

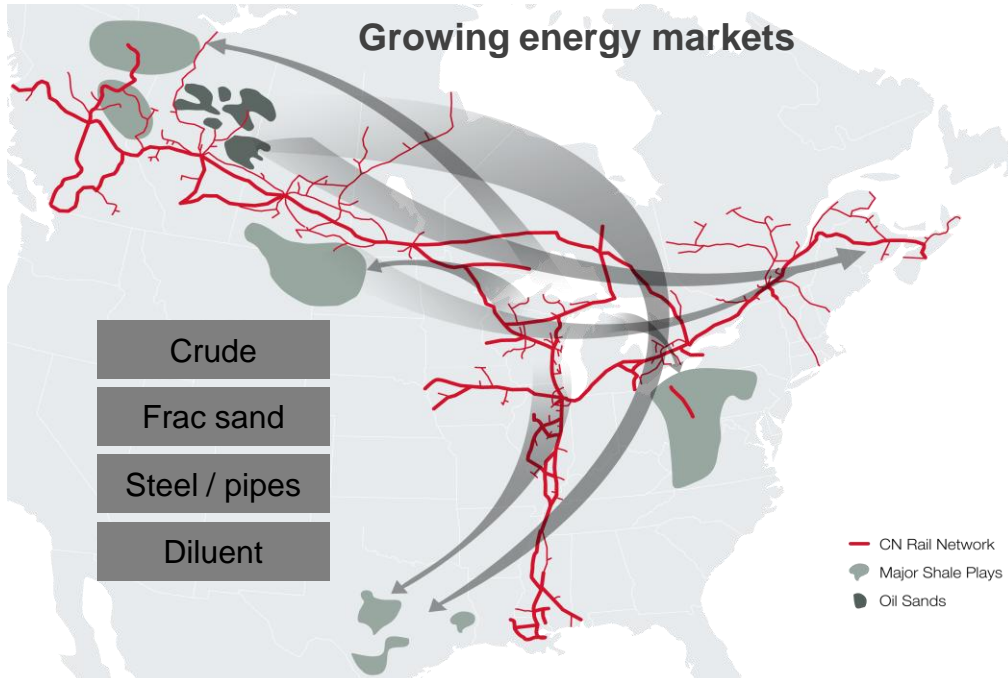
Rail loading facility and tank farm for crude opening soon – Fort McMurray, AB



## Fourth Quarter (2012 vs 2011)



## Growing energy markets



## Outlook

- Strong growth in energy-related commodities (crude, pipe, frac sand, diluent)
  - Aiming to double crude by rail business in 2013
- U.S. housing recovery driving growth in lumber, panel and container shipments
- Slow start in iron ore and other steel-related commodities

<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





# Q4 Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	<b>2012</b>	2011	Change Favorable (Unfavorable)
Revenues	<b>\$ 2,534</b>	\$ 2,377	7%
Operating expenses	<b>1,612</b>	1,538	
Operating income	<b>922</b>	839	10%
Interest expense	<b>(86)</b>	(85)	
Other income	<b>(5)</b>	21	
Income before income taxes	<b>831</b>	775	
Income tax expense	<b>(221)</b>	(183)	
Net income	<b>\$ 610</b>	\$ 592	3%
Diluted EPS	<b>\$ 1.41</b>	\$ 1.32	7%
Adjusted diluted EPS <sup>(1)</sup>	<b>\$ 1.41</b>	\$ 1.30	8%
Shares (diluted in millions)	<b>432.0</b>	447.3	
Operating ratio	<b>63.6%</b>	64.7%	1.1 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.



## Q4 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	\$ 463	\$ 511	9%	8%
Purchased services and material	340	295	(15%)	(17%)
Fuel	400	382	(5%)	(8%)
Depreciation and amortization	237	231	(3%)	(3%)
Equipment rents	64	63	(2%)	(5%)
Casualty and other	108	56	(93%)	(95%)
Total operating expenses	\$ 1,612	\$ 1,538	(5%)	(7%)

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



# Full-Year Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	<b>2012</b>	2011	Change Favorable (Unfavorable)
Revenues	<b>\$ 9,920</b>	\$ 9,028	10%
Operating expenses	<b>6,235</b>	5,732	
Operating income	<b>3,685</b>	3,296	12%
Interest expense	<b>(342)</b>	(341)	
Other income	<b>315</b>	401	
Income before income taxes	<b>3,658</b>	3,356	
Income tax expense	<b>(978)</b>	(899)	
Net income	<b>\$ 2,680</b>	\$ 2,457	9%
Diluted EPS	<b>\$ 6.12</b>	\$ 5.41	13%
Adjusted diluted EPS <sup>(1)</sup>	<b>\$ 5.61</b>	\$ 4.84	16%
Shares (diluted in millions)	<b>437.7</b>	454.4	
Operating ratio	<b>62.9%</b>	63.5%	0.6 pt

<sup>(1)</sup> 2012 and 2011 exclude items that affect 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.



# 2012 Free Cash Flow

*In millions of Canadian dollars, unless otherwise indicated*

Net income	\$ 2,680
Non-cash adjustments	1,094
Payments for income taxes	(289)
Other working capital items	(425)
Capital expenditures (net)	(1,731)
Major asset sales	311
Other investing <sup>(1)</sup>	21
Dividends	(652)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	(3)
Free cash flow	<u>\$ 1,006</u>
Financing activities (excluding dividends)	<u>\$ (930)</u>
Total net indebtedness at end of period (including restricted cash and cash equivalents)	<u>\$ 6,224</u>
Adjusted debt-to-total capitalization <sup>(2)</sup>	40.4%
Adjusted debt-to-adjusted EBITDA <sup>(2) (3)</sup>	1.61x

*(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.*

- Modest economic growth in North America
  - 3-4% carload growth, with stronger RTM growth
- Aiming for high single-digit growth in 2013 diluted EPS over adjusted diluted EPS of C\$5.61 in 2012 <sup>(1)</sup>
  - Despite headwind of approximately C\$150M related to increased pension expense and the impact of depreciation studies
- Targeting free cash flow in the range of C\$800M to C\$900M, including a normalized, higher level of cash taxes <sup>(1)</sup>

*(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



- Record 2012 results
  - Outpacing the economy
  - Industry-leading performance
- Solid outlook for 2013
- Delivering long-term shareholder value



Our unfolding supply-chain agenda is gaining momentum