



Second Quarter 2014 Financial Results

July 21, 2014





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.

2014 key assumptions

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, compared with three per cent growth as stated in its first-quarter 2014 financial results news release issued on April 22, 2014. CN also expects U.S. housing starts to be in the range of one million units, down slightly from its April 22, 2014, forecast of 1.1 million units. CN is also assuming U.S. motor vehicles sales will be approximately 16 million units. In addition, CN is assuming 2014/2015 grain crops in Canada and the United States will be in-line with their respective five-year averages. With these assumptions, CN now assumes mid to high single-digit carload growth, compared with mid-single digit carload growth stated on April 22, 2014, 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. In 2014, CN plans to invest approximately C\$2.25 billion in 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.



Claude Mongeau
President & Chief Executive Officer



Q2 Highlights



Swift recovery following Q1 winter weather challenges

- Just as our customers would expect
- Core metrics in-line or better than last year

Moved all-time record volumes to resync our key supply chains

- RTMs up 14%; carloads up 11%
- Strongest quarter ever for Canadian grain

Balancing Operational and Service Excellence

- Delivering growth at low incremental cost – operating ratio of 59.6%
- Staying ahead of the capacity curve for longer term growth

Delivering on our strategic agenda

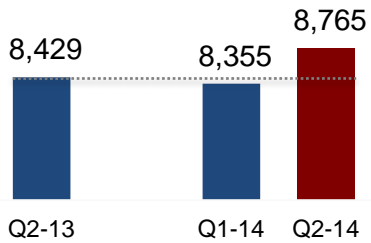


Jim Vena
Executive VP & Chief Operating Officer

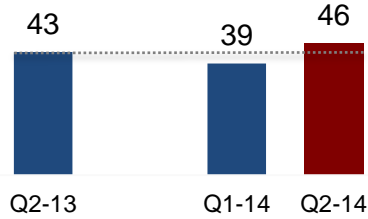


Operating Highlights

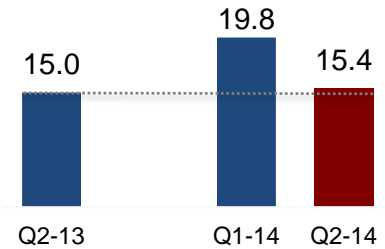
Train Productivity (GTMs per train mile)



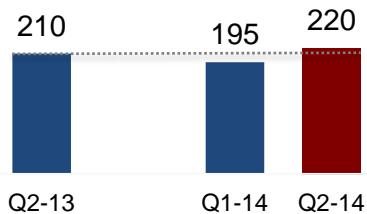
Yard Productivity (Cars per yard switching hour)



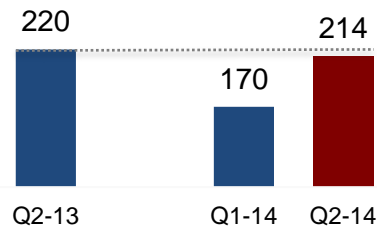
Terminal Dwell (Entire railroad, hours)



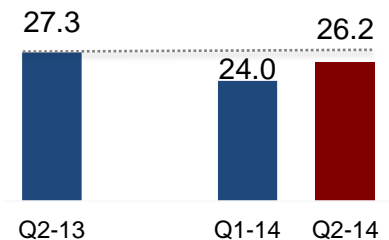
Locomotive Utilization (Trailing GTMs per total horsepower)



Car Velocity (Car miles per day)



Train Velocity (mph)



Solid execution drove a swift recovery in Q2




Balancing Operational and Service Excellence

Productivity



- Fuel efficiency
- Volume absorption
- Front-line decision making

Service



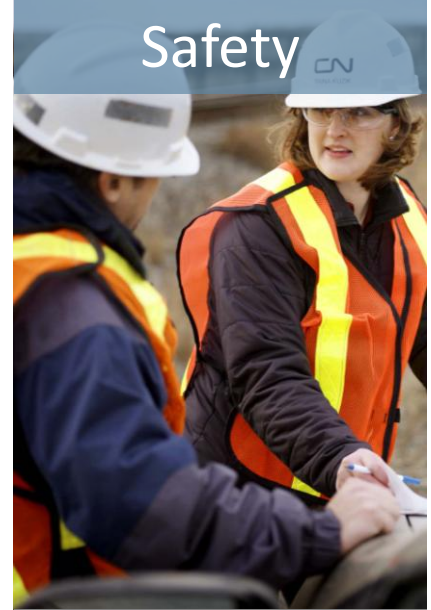
- Customer centric metrics
- End-to-end approach
- Rolling out i-Advise

Capacity



- Winnipeg to Chicago
- Symington Yard
- Locomotive fleet

Safety



- Culture and engagement
- Mentoring, peer-to-peer
- New training facilities

Enabling growth at low incremental cost



Jean-Jacques Ruest
Executive VP & Chief Marketing Officer



Solid Q2 Top Line Performance

	Revenues				Volumes	
	2014	2013	% Change Favorable (Unfavorable)	% Change at constant currency (1) Favorable (Unfavorable)	Carloads: % Change	RTMs: % Change
Petroleum and chemicals	\$ 564	\$ 481	17%	12%	7%	18%
Metals and minerals	370	309	20%	14%	(3%)	16%
Forest products	393	361	9%	4%	-	1%
Automotive	172	149	15%	10%	5%	15%
Coal	201	192	5%	2%	28%	(4%)
Grain and fertilizers	526	391	35%	31%	29%	35%
Intermodal	716	610	17%	15%	15%	9%
Total rail freight revenues	\$ 2,942	\$ 2,493	18%	14%	11%	14%
Other revenues	174	173	1%	(4%)		
Total revenues	\$ 3,116	\$ 2,666	17%	13%		

In millions of Canadian dollars, unless otherwise indicated

13% exchange adjusted revenue growth on strong volumes and disciplined yield

In 2014, certain Other revenues were reclassified to the commodity groups within rail freight revenues. This change has no impact on the Company's previously reported results of operations as Total revenues remains unchanged. The 2013 comparative figures have been reclassified in order to be consistent with the 2014 presentation.

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



Current Market Outlook

Intermodal



- Very solid growth in international
- Balancing price and volume growth in domestic
- Focused on end-to-end supply chain competitive advantage

Bulk



- Aiming to deliver record Canadian grain through the summer
- Rebuilding stockpiles of thermal coal at utilities
- Continued strength in potash
- Weakness in metallurgical coal exports

Merchandise



- Strong energy markets: frac sand, crude oil, drilling pipes
- Continuing recovery in U.S. housing and automotive: lumber, panels, vehicles, parts imports
- Flat outlook for paper, woodpulp, sulfur
- Rebuilding stockpiles of iron ore at steel mills



Negotiating Value for Our Service and Our Capacity



Same Store Price

Consistent measure of all past renewals

Delivering in-line with our goal of achieving 3%

Turnaround in regulated grain in August, from -1.8% to +4.2%

Capacity Yield Management

North American rail capacity is getting snug

Up-scaling of the bottom 10% of our book of business

More sophisticated yield management tools

- Unit revenue to cost ratio: customer provided cars
- Unit contribution per car day: CN provided cars

Targeting inflation plus pricing and
taking a disciplined approach to yield management



Luc Jobin
Executive VP and Chief Financial Officer



Q2 Results

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	2014	2013	Change Favorable (Unfavorable)
Revenues	\$ 3,116	\$ 2,666	17%
Operating expenses	1,858	1,624	
Operating income	1,258	1,042	21%
Interest expense	(91)	(88)	
Other income	2	28	
Income before income taxes	1,169	982	
Income tax expense	(322)	(265)	
Net income	\$ 847	\$ 717	18%
Diluted EPS	\$ 1.03	\$ 0.84	23%
Adjusted diluted EPS ⁽¹⁾	\$ 1.03	\$ 0.83	24%
Weighted-average number of shares (diluted in millions)	825.3	849.1	
Operating ratio	59.6%	60.9%	1.3 pts

Working all levers – record results

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



Q2 Operating Expenses

<i>In millions of Canadian dollars, unless otherwise indicated</i>	2014	2013	% Change Favorable (Unfavorable)	% Change at constant currency ⁽¹⁾ Favorable (Unfavorable)
Labor and fringe benefits	\$ 560	\$ 498	(12%)	(10%)
Purchased services and material	390	341	(14%)	(11%)
Fuel	484	402	(20%)	(13%)
Depreciation and amortization	257	250	(3%)	(1%)
Equipment rents	84	68	(24%)	(18%)
Casualty and other	83	65	(28%)	(22%)
Total operating expenses	\$ 1,858	\$ 1,624	(14%)	(10%)

Continuing to tightly manage costs

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



YTD Free Cash Flow

In millions of Canadian dollars, unless otherwise indicated

Net income	\$ 1,470
Non-cash adjustments	581
Payments for income taxes	(284)
Other working capital items	<u>151</u>
Net cash provided by operating activities	1,918
Capital expenditures (net)	(730)
Major asset sales	97
Other investing	<u>(35)</u>
Net cash used in investing activities	(668)
Net cash provided before financing activities	1,250
Change in restricted cash and cash equivalents	<u>20</u>
Free cash flow	\$ 1,270
Total net indebtedness at end of period (including restricted cash and cash equivalents)	\$ 7,066
Adjusted debt-to-total capitalization ⁽¹⁾	38.1%
Adjusted debt-to-adjusted EBITDA ^{(1) (2)}	1.59x

(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, for a reconciliation of the various non-GAAP measures.



Updating 2014 Financial Outlook

Strong rebound from Q1 weather challenges, with solid momentum going into the second half

- Growing faster than the economy, and at low incremental cost

Now aiming to achieve solid double-digit diluted EPS growth, versus 2013 adjusted diluted EPS of C\$3.06 ⁽¹⁾

- With mid to high single-digit carload growth and pricing above inflation

Also expecting stronger free cash flow, in the range of C\$1.8B-C\$2B ⁽¹⁾

- With a capital envelope of C\$2.25B

(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 2014 financial outlook.



Claude Mongeau
President & Chief Executive Officer



Becoming a True Supply Chain Enabler



Delivering high service levels to meet strong customer demand

- Supply chain mindset and capabilities key to our success

Disciplined investment to support growth, productivity and safety

- Accommodating growth at low incremental cost

Creating solid value for our customers and shareholders