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# First Quarter 2017 Financial Results

April 24, 2017





## Forward-Looking Statements

Certain statements included in this presentation constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. By their nature, 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. Key assumptions used in determining forward-looking statements are set forth below. Forward-looking statements may be identified by the use of terminology such as “believes,” “expects,” “anticipates,” “assumes,” “outlook,” “plans,” “targets,” or other similar words.

### **2017 key assumptions**

*CN has made a number of economic and market assumptions in preparing its 2017 outlook. The Company is now assuming that North American industrial production for the year will increase by approximately two per cent (compared with its Jan. 24, 2017 assumption that North American industrial production would increase in the range of one to two per cent) and assumes U.S. housing starts in the range of 1.25 million units and U.S. motor vehicle sales of approximately 17.5 million units. For the 2016/2017 crop year, the grain crops in both the United States and Canada were above their respective five-year averages. The Company assumes that the 2017/2018 grain crops in both Canada and the United States will be in line with their respective five-year averages. With these assumptions, CN now assumes total RTMs in 2017 will increase by approximately 10 per cent versus 2016 (compared with its Jan. 24, 2017 assumption that total RTMs in 2017 would increase in the range of three to four per cent versus 2016). CN expects continued pricing improvement above inflation. CN assumes that in 2017 the value of the Canadian dollar in U.S. currency will be in the range of \$0.75, and that the average price of crude oil (West Texas Intermediate) will be in the range of US\$50 to US\$60 per barrel. In 2017, CN now plans to invest approximately C\$2.6 billion in its capital program (compared with its Jan. 24, 2017 plan to invest approximately C\$2.5 billion in its capital program in 2017), of which C\$1.6 billion is still targeted toward track infrastructure.*

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 to be materially different from the outlook or any future results or performance implied by such statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. 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; security threats; reliance on technology; trade restrictions; transportation of hazardous materials; various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes; climate change; 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 and available on CN’s website, for a description of major risk factors.

Forward-looking statements reflect information as of the date on which they are made. 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 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.

## Non-GAAP Measures

CN reports its financial results in accordance with United States generally accepted accounting principles (GAAP). CN also uses non-GAAP measures in this presentation that do not have any standardized meaning prescribed by GAAP, including adjusted performance measures, constant currency, free cash flow, and adjusted debt-to-adjusted EBITDA multiple. These non-GAAP measures may not be comparable to similar measures presented by other companies. For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the Company’s website, First Quarter Results at [www.cn.ca/financial-results](http://www.cn.ca/financial-results).

CN’s full-year adjusted EPS guidance excludes the expected impact of certain income and expense items. However, management cannot individually quantify on a forward-looking basis the impact of these items on its EPS because these items, which could be significant, are difficult to predict and may be highly variable. As a result, CN does not provide a corresponding GAAP measure for, or reconciliation to, its adjusted EPS guidance.



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Luc Jobin  
President and Chief Executive Officer





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## Highlights

Strong start to the year

### Driving top line growth

- Record first quarter volumes and revenues with strong growth across most sectors (RTMs up 14%)
- Market share gains in key service sensitive markets
- Inflation-plus pricing

### At low incremental cost

- Solid response from the operating team to accommodate the strong demand
- Operating ratio of 59.4%, up 50 bps from Q1 2016

### Leading to strong financial results

- Diluted EPS of \$1.16, up 16%
- Adjusted diluted EPS of \$1.15, up 15% <sup>(1)</sup>
- Solid free cash flow generation of nearly C\$850M <sup>(1)</sup>

(1) Please see website, *First Quarter Results*, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of these non-GAAP measures.



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Mike Cory  
Executive VP and Chief Operating Officer

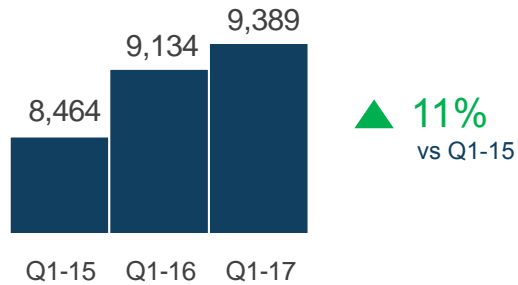




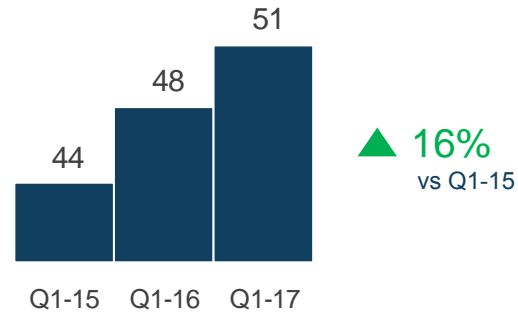
# Operating Highlights

Solid operating metrics despite 12% increase in GTMs and more demanding winter conditions

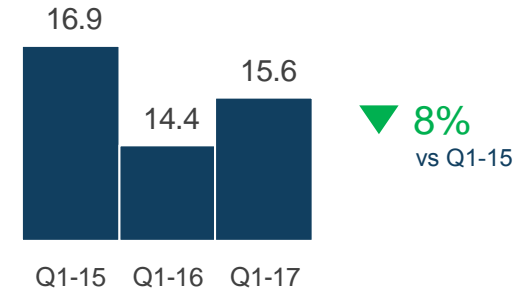
Train Productivity  
(GTM per train mile)



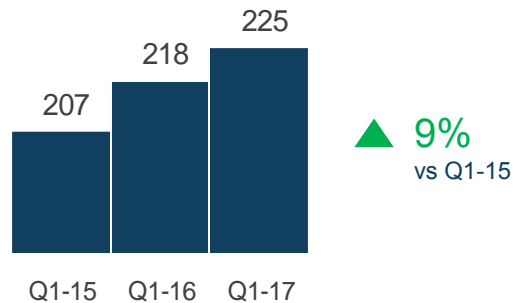
Yard Productivity  
(Cars per yard switching hour)



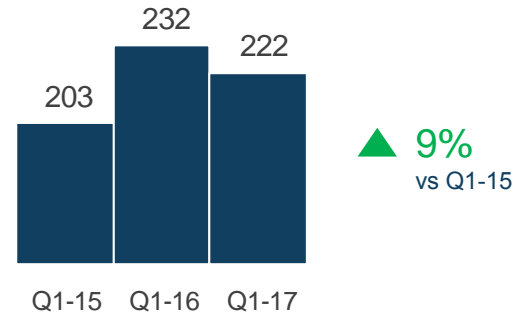
Terminal Dwell  
(Entire railroad, hours)



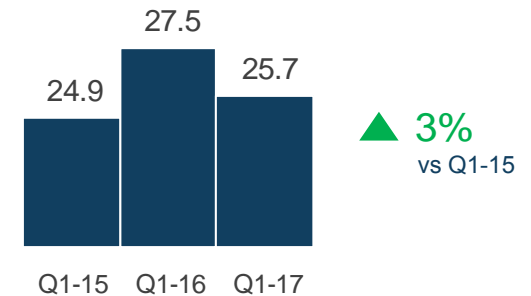
Locomotive Utilization  
(Trailing GTMs per total horsepower)



Car Velocity  
(Car miles per day)



Train Velocity  
(mph)





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JJ Ruest  
Executive VP and Chief Marketing Officer





# Q1 Top Line Performance

Impressive performance, particularly in coal, grain and frac sand

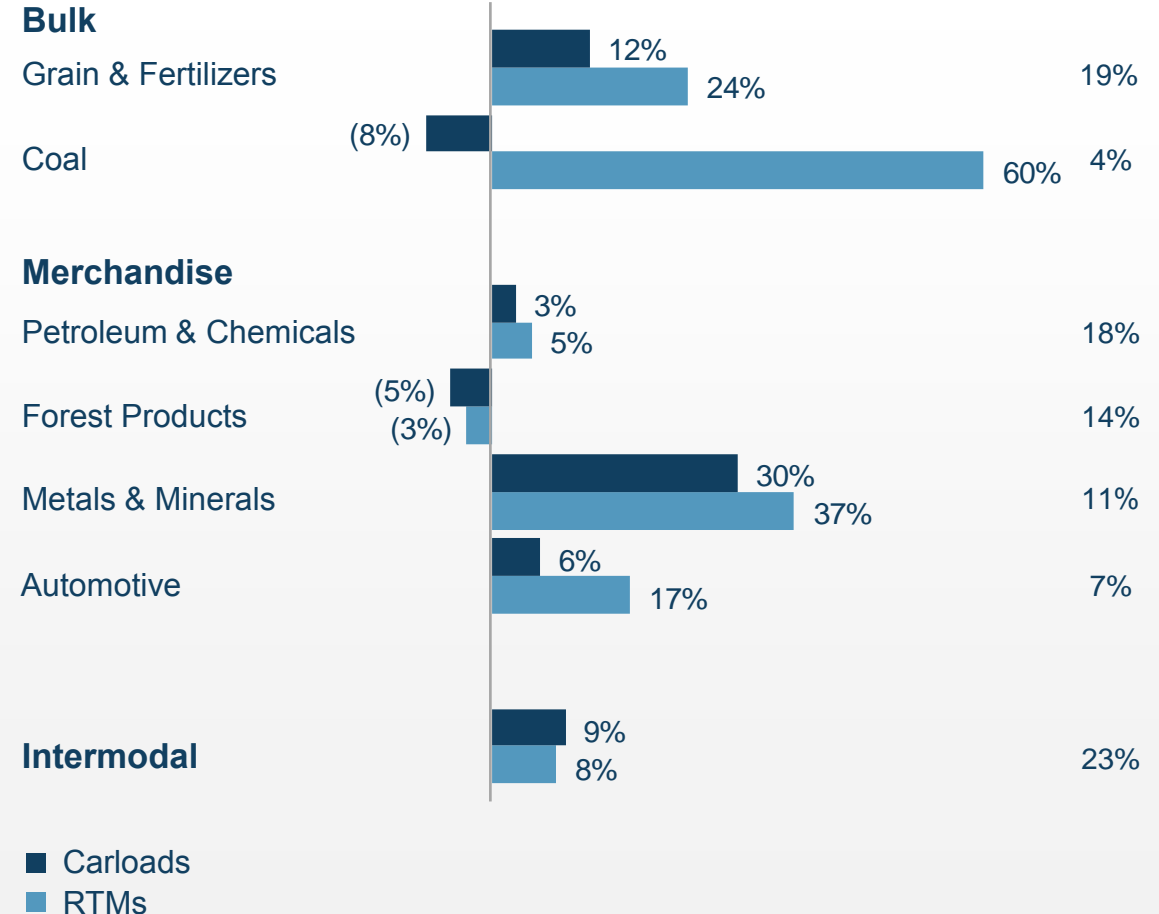
## Highlights

% Change – Favorable  
(Unfavorable)

Revenues	8%
Carloads	9%
\$ / Carload	(1%)
RTMs	14%
¢ / RTM	(6%)
Same Store Price <sup>(1)</sup>	2.7%

## Volumes

% of Total Revenues <sup>(2)</sup>



(1) ~75% of CN's revenues are same store.

(2) Based on Q1 2017 revenue breakdown – Other revenues represent the remaining 4%.





## Market Outlook

Now expecting 2017 RTM growth of approximately 10%

### Intermodal

23% of revenues

- International
  - Volumes expected to outperform overall industry
  - Further expanding our reach in the U.S. – new terminal in Duluth, MN
  - Enabling grain and lumber exports via Prince Rupert transloads
  - New port capacity at Vancouver and Prince Rupert online in H2, in advance of peak shipping season
- Domestic
  - Serving new domestic business (Canadian “Big Box Retailers”)
  - Partnering with longstanding wholesale customers to grow organically

### Merchandise

50% of revenues

- Positive outlook on energy-related volumes for Q2
  - Strong frac sand shipments to Canadian and U.S. drilling regions
  - Opportunities in refined petroleum products i.e. propane, butane, gasoline and diesel
- U.S. steel industry benefiting from tariffs on Asian imports and higher capex by energy industry
- Market share gains in automotive providing the ability to outpace North American vehicle sales
- Very good outlook for U.S. housing starts; impact of Canada-U.S. softwood lumber negotiations uncertain

### Bulk

23% of revenues

- Shift to commercial framework and best in class railroading paying off with market share gains in Canadian grain
- Coal inflecting positive
  - Asian demand for met coal and pet coke driving improved Canadian exports
  - Positive trends in thermal exports via Gulf
- Positive outlook for Q2 export potash program
  - Leveraging exports via the East Coast (Saint John, NB)

Q1 2017 revenue breakdown – Other revenues represent the remaining 4%.

Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors underlying CN's 2017 financial outlook.



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Ghislain Houle  
Executive VP and Chief Financial Officer





## Q1 Results

Solid financial performance

<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>	<b>2017</b>	2016	Change Favorable (Unfavorable)
Revenues	<b>\$ 3,206</b>	\$ 2,964	8%
Operating expenses	<b>1,903</b>	1,747	
Operating income	<b>1,303</b>	1,217	7%
Interest expense	<b>(122)</b>	(123)	
Other income	<b>2</b>	5	
Income before income taxes	<b>1,183</b>	1,099	
Income tax expense	<b>(299)</b>	(307)	
Net income	<b>\$ 884</b>	\$ 792	12%
Diluted EPS	<b>\$ 1.16</b>	\$ 1.00	16%
Adjusted diluted EPS <sup>(1)</sup>	<b>\$ 1.15</b>	\$ 1.00	15%
Weighted-average diluted number of shares (in millions)	<b>764.5</b>	789.0	
Operating ratio	<b>59.4%</b>	58.9%	(0.5 pts)

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



## Q1 Operating Expenses

Continuing to deliver efficiency gains through disciplined cost management

<i>In millions of Canadian dollars, unless otherwise indicated</i>	<b>2017</b>	<b>2016</b>	<b>% Change Favorable (Unfavorable)</b>	<b>% Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)</b>
Labor and fringe benefits	\$ <b>580</b>	\$ 590	2%	-
Purchased services and material	<b>440</b>	408	(8%)	(9%)
Fuel	<b>342</b>	235	(46%)	(51%)
Depreciation and amortization	<b>323</b>	307	(5%)	(7%)
Equipment rents	<b>101</b>	95	(6%)	(11%)
Casualty and other	<b>117</b>	112	(4%)	(7%)
Total operating expenses	\$ <b>1,903</b>	\$ 1,747	(9%)	(11%)

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



## Generating Strong Free Cash Flow

<i>In millions of Canadian dollars, unless otherwise indicated</i>	<b>2017 YTD</b>
Net income	\$ 884
Non-cash adjustments	468
Payments for income taxes	(164)
Other working capital items	68
<b>Net cash provided by operating activities</b>	<b>1,256</b>
Capital expenditures (net)	(396)
Other investing activities	(12)
<b>Net cash used in investing activities</b>	<b>(408)</b>
<b>Free cash flow <sup>(1)</sup></b>	<b>\$ 848</b>
<b>Total net indebtedness at end of period <sup>(2)</sup></b>	<b>\$ 10,200</b>
<b>Adjusted debt-to-adjusted EBITDA multiple <sup>(1) (3) (4)</sup></b>	<b>1.72 x</b>

(1) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of these non-GAAP measures.

(2) Includes restricted cash and cash equivalents.

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

(4) 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. The adjusted debt-to-adjusted EBITDA multiple is based on adjusted EBITDA for the twelve months ended March 31, 2017.



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## Revised 2017 Financial Outlook

Expect to deliver adjusted diluted EPS in the range of C\$4.95 to C\$5.10 versus 2016 adjusted diluted EPS of C\$4.59 <sup>(1) (2)</sup>

- Volume growth of approximately 10% in terms of RTMs, with overall pricing above inflation

Increasing our capital envelope by C\$100M to C\$2.6B for 2017 <sup>(2)</sup>

- Opportunistic approach to support additional growth, including the acquisition of 22 new locomotives

Delivering sustainable value for our shareholders

- Dividend increase of 10% (announced on Jan 24, 2017)
- Share buyback program (Oct 2016 - Oct 2017)

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

(2) Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors underlying CN's 2017 financial outlook.



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Luc Jobin  
President and Chief Executive Officer





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## Looking Ahead

Creating value for our customers and shareholders

- Building on the momentum of strong first quarter volumes
- Solid foundation of operational excellence with unwavering commitment to safety
- Leveraging our supply chain focus to grow faster than the economy
- Capex program with a long-term vision