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2019 QUARTERLY REVIEW SECOND QUARTER

Press Release

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CN reports record second-quarter financial results

Railway achieved record Q2 diluted earnings per share (EPS)

MONTREAL, July 23, 2019 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the second quarter ended June 30, 2019.

"The CN team delivered record second-quarter results, and we remain optimistic on CN's volume prospects in the second half of the year while maintaining our vigilance on costs," said JJ Ruest, president and chief executive officer of CN. "Our focus on delivering profitable growth and advanced technologies to modernize our scheduled railroading model is expected to continue driving long-term value creation for our shareholders."

Financial results highlights

Second-quarter 2019 compared to second-quarter 2018

- CN attained record second-quarter diluted EPS, as well as record quarterly revenues, operating income and adjusted diluted EPS. (1)
- Revenues increased by nine per cent to C$3,959 million.
- Diluted EPS increased by six per cent to C$1.88 and adjusted diluted EPS increased by 15 per cent to C$1.73. (1)
- Operating ratio of 57.5 per cent, an improvement of 0.7 points.
- Operating income increased by 11 per cent to C$1,682 million.

Reaffirmed 2019 financial outlook (2)

CN still aims to deliver 2019 adjusted diluted EPS growth in the low double-digit range this year versus last year's adjusted diluted EPS of C$5.50 (1) and continues to assume mid single-digit volume growth in 2019 in terms of revenue ton miles (RTMs).

Second-quarter 2019 revenues, traffic volumes and expenses

Revenues for the second quarter of 2019 were C$3,959 million, an increase of C$328 million or nine per cent, when compared to the same period in 2018. The increase in revenues was mainly due to the inclusion of TransX in the intermodal commodity group, the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes primarily from petroleum crude and Canadian and U.S. grain, which were partly offset by lower volumes of frac sand, lumber and potash.

RTMs, measuring the relative weight and distance of freight transported by CN, increased by two per cent from the year-earlier period. Freight revenue per RTM increased by eight per cent over the year-earlier period, mainly driven by the inclusion of TransX, the positive translation impact of a weaker Canadian dollar and freight rate increases.

Operating expenses for the second quarter increased by eight per cent to C$2,277 million, mainly driven by the inclusion of TransX, the negative translation impact of a weaker Canadian dollar, and higher costs resulting from increased volumes of traffic.

(1) 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 news release that do not have any standardized meaning prescribed by GAAP, such as adjusted performance measures. 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 attached supplementary schedule, Non-GAAP Measures.

CN's full-year adjusted diluted EPS outlook [2] excludes the expected impact of certain income and expense items, as well as those items noted in the reconciliation tables provided in the attached supplementary schedule, Non-GAAP Measures. 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 diluted EPS outlook.

(2) Forward-Looking Statements

Certain statements included in this news release 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. Forward-looking statements may be identified by the use of terminology such as "believes," "expects," "anticipates," "assumes," "outlook," "plans," "targets," or other similar words.

2019 key assumptions

CN has made a number of economic and market assumptions in preparing its 2019 outlook. The Company now assumes that North American industrial production for the year will increase by approximately one per cent (compared to its June 4, 2019 assumption of approximately two per cent), and assumes U.S. housing starts of approximately 1.25 million units and U.S. motor vehicle sales of approximately 17 million units. For the 2018/2019 crop year, the grain crops in both Canada and the United States were in line with their respective three-year averages. The Company assumes that the 2019/2020 grain crop in Canada will be in line with the three-year average and now assumes that the 2019/2020 grain crop in the United States will be below the three-year average (compared to its June 4, 2019 assumption that the 2019/2020 grain crop in the United States would be in line with the three-year average). CN assumes total RTMs in 2019 will increase in the mid single digits versus 2018. CN assumes continued pricing above rail inflation. CN assumes that in 2019, the value of the Canadian dollar in U.S. currency will be approximately $0.75, and assumes that in 2019 the average price of crude oil (West Texas Intermediate) will be in the range of US$60 to US$65 per barrel. In 2019, CN plans to invest approximately C$3.9 billion in its capital program, of which C$1.6 billion is targeted toward track and railway infrastructure maintenance.

Forward-looking statements are not guarantees of future performance and involve 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; increases in maintenance and operating costs; security threats; reliance on technology and related cybersecurity risk; trade restrictions or other changes to international trade arrangements; transportation of hazardous materials; various events which could disrupt operations, including natural events such as severe weather, droughts, fires, 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; timing and completion of capital programs; 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 (MD&A) 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.

This earnings news release, as well as additional information, including the Financial Statements, Notes thereto and MD&A, is contained in CN’s Quarterly Review available on the Company's website at www.cn.ca/financial-results and on SEDAR at www.sedar.com as well as on the U.S. Securities and Exchange Commission's website at www.sec.gov through EDGAR.

CN is a true backbone of the economy transporting more than C$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network of approximately 20,000 route-miles spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries – serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., and Jackson, Miss., with connections to all points in North America. For more information about CN, visit the Company's website at www.cn.ca.

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Selected Railroad Statistics – unaudited

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Financial measures				
Key financial performance indicators (1)				
Total revenues *($ millions)*	**3,959**	3,631	**7,503**	6,825
Freight revenues *($ millions)*	**3,759**	3,418	**7,172**	6,484
Operating income *($ millions)*	**1,682**	1,519	**2,762**	2,549
Adjusted operating income *($ millions)* (2)	**1,682**	1,519	**2,846**	2,549
Net income *($ millions)*	**1,362**	1,310	**2,148**	2,051
Adjusted net income *($ millions)* (2)	**1,250**	1,120	**2,098**	1,861
Diluted earnings per share *($)*	**1.88**	1.77	**2.96**	2.77
Adjusted diluted earnings per share *($)* (2)	**1.73**	1.51	**2.90**	2.51
Free cash flow *($ millions)* (2)	**513**	974	**799**	1,296
Gross property additions *($ millions)*	**1,182**	840	**2,100**	1,265
Share repurchases *($ millions)*	**445**	385	**877**	1,016
Dividends per share *($)*	**0.5375**	0.4550	**1.0750**	0.9100
Financial position (1)				
Total assets *($ millions)*	**43,002**	39,805	**43,002**	39,805
Total liabilities *($ millions)*	**25,020**	22,436	**25,020**	22,436
Shareholders' equity *($ millions)*	**17,982**	17,369	**17,982**	17,369
Financial ratio				
Operating ratio *(%)*	**57.5**	58.2	**63.2**	62.7
Adjusted operating ratio *(%)* (2)	**57.5**	58.2	**62.1**	62.7
Operational measures (3)				
Statistical operating data				
Gross ton miles (GTMs) *(millions)*	**127,606**	123,540	**243,465**	236,580
Revenue ton miles (RTMs) *(millions)*	**64,329**	63,021	**123,396**	120,206
Carloads *(thousands)*	**1,538**	1,506	**2,956**	2,914
Route miles *(includes Canada and the U.S.)*	**19,500**	19,500	**19,500**	19,500
Employees *(end of period)*	**27,215**	25,654	**27,215**	25,654
Employees *(average for the period)*	**27,116**	25,275	**26,570**	24,871
Key operating measures				
Freight revenue per RTM *(cents)*	**5.84**	5.42	**5.81**	5.39
Freight revenue per carload *($)*	**2,444**	2,270	**2,426**	2,225
GTMs per average number of employees *(thousands)*	**4,706**	4,888	**9,163**	9,512
Operating expenses per GTM *(cents)*	**1.78**	1.71	**1.95**	1.81
Labor and fringe benefits expense per GTM *(cents)*	**0.53**	0.52	**0.61**	0.58
Diesel fuel consumed *(US gallons in millions)*	**114.9**	113.7	**232.4**	226.5
Average fuel price *($/US gallon)*	**3.31**	3.37	**3.17**	3.26
GTMs per US gallon of fuel consumed	**1,111**	1,087	**1,048**	1,045
Car velocity *(car miles per day)*	**214**	196	**192**	177
Through dwell *(hours)*	**7.2**	8.1	**7.9**	9.0
Through network train speed *(miles per hour)*	**19.0**	18.2	**18.0**	17.7
Locomotive utilization *(trailing GTMs per total horsepower)*	**212**	213	**199**	207
Safety indicators (4)				
Injury frequency rate *(per 200,000 person hours)*	**1.60**	1.62	**1.92**	1.87
Accident rate *(per million train miles)*	**1.41**	2.48	**2.22**	2.33

(1) *Amounts expressed in Canadian dollars and prepared in accordance with United States generally accepted accounting principles (GAAP), unless otherwise noted.*

(2) *See supplementary schedule entitled Non-GAAP Measures for an explanation of these non-GAAP measures.*

(3) *Statistical operating data, key operating measures and safety indicators are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available. Definitions of these indicators are provided on CN's website, www.cn.ca/glossary.*

(4) *Based on Federal Railroad Administration (FRA) reporting criteria.*

Supplementary Information – unaudited

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) (1)	**2019**	2018	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) (1)
Revenues *($ millions)* (2)								
Petroleum and chemicals	**775**	616	26%	23%	**1,510**	1,180	28%	24%
Metals and minerals	**440**	447	(2%)	(4%)	**861**	835	3%	—%
Forest products	**487**	490	(1%)	(3%)	**943**	912	3%	—%
Coal	**177**	175	1%	—%	**340**	317	7%	5%
Grain and fertilizers	**641**	591	8%	7%	**1,218**	1,130	8%	6%
Intermodal	**992**	863	15%	14%	**1,842**	1,677	10%	8%
Automotive	**247**	236	5%	2%	**458**	433	6%	2%
Total freight revenues	**3,759**	3,418	10%	8%	**7,172**	6,484	11%	8%
Other revenues	**200**	213	(6%)	(8%)	**331**	341	(3%)	(6%)
Total revenues	**3,959**	3,631	9%	7%	**7,503**	6,825	10%	7%
Revenue ton miles (RTMs) *(millions)* (3)								
Petroleum and chemicals	**14,357**	11,553	24%	24%	**27,106**	22,172	22%	22%
Metals and minerals	**6,832**	7,544	(9%)	(9%)	**13,402**	14,482	(7%)	(7%)
Forest products	**7,271**	7,922	(8%)	(8%)	**14,089**	14,883	(5%)	(5%)
Coal	**4,699**	4,734	(1%)	(1%)	**8,993**	8,442	7%	7%
Grain and fertilizers	**15,045**	14,585	3%	3%	**28,912**	28,190	3%	3%
Intermodal	**15,034**	15,533	(3%)	(3%)	**28,882**	29,901	(3%)	(3%)
Automotive	**1,091**	1,150	(5%)	(5%)	**2,012**	2,136	(6%)	(6%)
Total RTMs	**64,329**	63,021	2%	2%	**123,396**	120,206	3%	3%
Freight revenue / RTM *(cents)* (2) (3)								
Petroleum and chemicals	**5.40**	5.33	1%	(1%)	**5.57**	5.32	5%	1%
Metals and minerals	**6.44**	5.93	9%	6%	**6.42**	5.77	11%	8%
Forest products	**6.70**	6.19	8%	5%	**6.69**	6.13	9%	6%
Coal	**3.77**	3.70	2%	1%	**3.78**	3.76	1%	(2%)
Grain and fertilizers	**4.26**	4.05	5%	3%	**4.21**	4.01	5%	3%
Intermodal	**6.60**	5.56	19%	17%	**6.38**	5.61	14%	12%
Automotive	**22.64**	20.52	10%	7%	**22.76**	20.27	12%	9%
Total freight revenue / RTM	**5.84**	5.42	8%	6%	**5.81**	5.39	8%	5%
Carloads *(thousands)* (3)								
Petroleum and chemicals	**174**	155	12%	12%	**342**	308	11%	11%
Metals and minerals	**269**	265	2%	2%	**504**	507	(1%)	(1%)
Forest products	**100**	109	(8%)	(8%)	**196**	209	(6%)	(6%)
Coal	**90**	86	5%	5%	**170**	166	2%	2%
Grain and fertilizers	**167**	162	3%	3%	**316**	307	3%	3%
Intermodal	**663**	657	1%	1%	**1,287**	1,281	—%	—%
Automotive	**75**	72	4%	4%	**141**	136	4%	4%
Total carloads	**1,538**	1,506	2%	2%	**2,956**	2,914	1%	1%
Freight revenue / carload *($)* (2) (3)								
Petroleum and chemicals	**4,454**	3,974	12%	9%	**4,415**	3,831	15%	12%
Metals and minerals	**1,636**	1,687	(3%)	(6%)	**1,708**	1,647	4%	—%
Forest products	**4,870**	4,495	8%	5%	**4,811**	4,364	10%	7%
Coal	**1,967**	2,035	(3%)	(4%)	**2,000**	1,910	5%	3%
Grain and fertilizers	**3,838**	3,648	5%	3%	**3,854**	3,681	5%	3%
Intermodal	**1,496**	1,314	14%	12%	**1,431**	1,309	9%	8%
Automotive	**3,293**	3,278	—%	(2%)	**3,248**	3,184	2%	(1%)
Total freight revenue / carload	**2,444**	2,270	8%	5%	**2,426**	2,225	9%	6%

(1) *See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.*

(2) *Amounts expressed in Canadian dollars.*

(3) *Statistical operating data and related key operating measures are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available.*

Non-GAAP Measures – unaudited

In this supplementary schedule, the "Company" or "CN" refers to Canadian National Railway Company, together with its wholly-owned subsidiaries. Financial information included in this schedule is expressed in Canadian dollars, unless otherwise noted.

CN reports its financial results in accordance with United States generally accepted accounting principles (GAAP). The Company also uses non-GAAP measures 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. From management's perspective, these non-GAAP measures are useful measures of performance and provide investors with supplementary information to assess the Company's results of operations and liquidity. These non-GAAP measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP.

Adjusted performance measures

Management believes that adjusted net income, adjusted earnings per share, adjusted operating income and adjusted operating ratio are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of CN's normal day-to-day operations and could distort the analysis of trends in business performance. Management uses adjusted performance measures, which exclude certain income and expense items in its results that management believes are not reflective of CN's underlying business operations, to set performance goals and as a means to measure CN's performance. The exclusion of such income and expense items in these measures does not, however, imply that these items are necessarily non-recurring. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

For the three and six months ended June 30, 2019, the Company's adjusted net income was $1,250 million, or $1.73 per diluted share, and $2,098 million, or $2.90 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2019 exclude a deferred income tax recovery of $112 million ($0.15 per diluted share), resulting from the enactment of a lower provincial corporate income tax rate. The adjusted figures for the six months ended June 30, 2019 also exclude a depreciation and amortization expense of $84 million, or $62 million after-tax ($0.09 per diluted share) in the first quarter, related to costs previously capitalized for a Positive Train Control (PTC) back office system following the deployment of a replacement system.

For the three and six months ended June 30, 2018, the Company's adjusted net income was $1,120 million, or $1.51 per diluted share, and $1,861 million, or $2.51 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2018 exclude a gain on transfer of the Company's capital lease in the passenger rail facilities in downtown Montreal together with its interests in related railway operating agreements (the "Central Station Railway Lease") of $184 million, or $156 million after-tax ($0.21 per diluted share), and a gain on disposal of land located in Calgary, excluding the rail fixtures (the "Calgary Industrial Lead"), of $39 million, or $34 million after-tax ($0.05 per diluted share).

The following table provides a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2019**	2018	**2019**	2018
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Adjustments:				
Depreciation and amortization	**—**	—	**84**	—
Other income	**—**	(223)	**—**	(223)
Income tax expense (recovery) (1)	**(112)**	33	**(134)**	33
Adjusted net income	**$ 1,250**	$ 1,120	**$ 2,098**	$ 1,861
Basic earnings per share	**$ 1.89**	$ 1.78	**$ 2.97**	$ 2.78
Impact of adjustments, per share	**(0.16)**	(0.26)	**(0.07)**	(0.26)
Adjusted basic earnings per share	**$ 1.73**	$ 1.52	**$ 2.90**	$ 2.52
Diluted earnings per share	**$ 1.88**	$ 1.77	**$ 2.96**	$ 2.77
Impact of adjustments, per share	**(0.15)**	(0.26)	**(0.06)**	(0.26)
Adjusted diluted earnings per share	**$ 1.73**	$ 1.51	**$ 2.90**	$ 2.51

(1) The tax effect of adjustments reflects tax rates in the applicable jurisdiction and the nature of the item for tax purposes.

Non-GAAP Measures – unaudited

The following table provides a reconciliation of operating income and operating ratio, as reported for the three and six months ended June 30, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended June 30		Six months ended June 30	
In millions, except percentage	**2019**	2018	**2019**	2018
Operating income	**$ 1,682**	$ 1,519	**$ 2,762**	$ 2,549
Adjustment: Depreciation and amortization	**—**	—	**84**	—
Adjusted operating income	**$ 1,682**	$ 1,519	**$ 2,846**	$ 2,549
Operating ratio [(1)]	**57.5%**	58.2%	**63.2%**	62.7%
Impact of adjustment	**—**	—	**(1.1)-pts**	—
Adjusted operating ratio	**57.5%**	58.2%	**62.1%**	62.7%

(1) Operating ratio is defined as operating expenses as a percentage of revenues.

Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period in the prior year. The average foreign exchange rates were $1.34 and $1.33 per US$1.00 for the three and six months ended June 30, 2019, respectively, and $1.29 and $1.28 per US$1.00 for the three and six months ended June 30, 2018, respectively.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2019 would have been lower by $28 million ($0.04 per diluted share) and $58 million ($0.08 per diluted share), respectively.

Free cash flow

Management believes that free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends, share repurchases, and strategic opportunities. The Company defines its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities, adjusted for the impact of business acquisitions, if any. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net cash provided by operating activities as reported for the three and six months ended June 30, 2019 and 2018, to free cash flow:

	Three months ended June 30		Six months ended June 30	
In millions	**2019**	2018	**2019**	2018
Net cash provided by operating activities	**$ 1,716**	$ 1,682	**$ 2,713**	$ 2,437
Net cash used in investing activities	**(1,203)**	(708)	**(2,081)**	(1,141)
Net cash provided before financing activities	**513**	974	**632**	1,296
Adjustment: Acquisition, net of cash acquired [(1)]	**—**	—	**167**	—
Free cash flow	**$ 513**	$ 974	**$ 799**	$ 1,296

(1) Relates to the acquisition of the TransX Group of Companies ("TransX"). See Note 3 - Business combination to CN's 2019 unaudited Interim Consolidated Financial Statements for additional information.

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple is a useful credit measure because it reflects the Company's ability to service its debt and other long-term obligations. The Company calculates the adjusted debt-to-adjusted EBITDA multiple as adjusted debt divided by adjusted EBITDA. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and net income to the adjusted measures presented below, which have been used to calculate the adjusted debt-to-adjusted EBITDA multiple:

In millions, unless otherwise indicated	*As at and for the twelve months ended June 30,*	**2019**	2018
Debt		**$ 13,354**	$ 11,874
Adjustments:			
Operating lease liabilities, including current portion (1)		**543**	491
Pension plans in deficiency		**475**	459
Adjusted debt		**$ 14,372**	$ 12,824
Net income		**$ 4,425**	$ 5,620
Interest expense		**510**	482
Income tax expense (recovery)		**1,249**	(396)
Depreciation and amortization		**1,479**	1,285
EBITDA		**7,663**	6,991
Adjustments:			
Other income		**(166)**	(244)
Other components of net periodic benefit income		**(312)**	(309)
Operating lease cost (1)		**202**	195
Adjusted EBITDA		**$ 7,387**	$ 6,633
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**1.95**	1.93

(1) The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019. The Company now includes operating lease liabilities, as defined by Topic 842, in adjusted debt and excludes operating lease cost, as defined by Topic 842, in adjusted EBITDA. Comparative balances previously referred to as present value of operating lease commitments and operating lease expense have not been adjusted and are now referred to as operating lease liabilities and operating lease cost, respectively. See Note 2 - Recent accounting pronouncements to CN's 2019 unaudited Interim Consolidated Financial Statements for additional information.

Consolidated Statements of Income – unaudited

In millions, except per share data	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenues *(Note 4)*	**$ 3,959**	$ 3,631	**$ 7,503**	$ 6,825
Operating expenses				
Labor and fringe benefits	**681**	648	**1,479**	1,362
Purchased services and material	**571**	478	**1,129**	959
Fuel	**442**	436	**840**	829
Depreciation and amortization *(Note 5)*	**363**	330	**803**	653
Equipment rents	**104**	112	**218**	225
Casualty and other	**116**	108	**272**	248
Total operating expenses	**2,277**	2,112	**4,741**	4,276
Operating income	**1,682**	1,519	**2,762**	2,549
Interest expense	**(136)**	(124)	**(267)**	(246)
Other components of net periodic benefit income *(Note 6)*	**83**	76	**163**	153
Other income *(Note 7)*	**23**	229	**25**	235
Income before income taxes	**1,652**	1,700	**2,683**	2,691
Income tax expense *(Note 8)*	**(290)**	(390)	**(535)**	(640)
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Earnings per share *(Note 9)*				
Basic	**$ 1.89**	$ 1.78	**$ 2.97**	$ 2.78
Diluted	**$ 1.88**	$ 1.77	**$ 2.96**	$ 2.77
Weighted-average number of shares *(Note 9)*				
Basic	**721.8**	736.0	**723.5**	738.6
Diluted	**724.5**	739.1	**726.1**	741.6
Dividends declared per share	**$ 0.5375**	$ 0.4550	**$ 1.0750**	$ 0.9100

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

In millions	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Other comprehensive income (loss) *(Note 13)*				
Net gain (loss) on foreign currency translation	**(106)**	90	**(212)**	197
Net change in pension and other postretirement benefit plans *(Note 6)*	**37**	51	**77**	101
Other comprehensive income (loss) before income taxes	**(69)**	141	**(135)**	298
Income tax recovery (expense)	**(28)**	7	**(63)**	19
Other comprehensive income (loss)	**(97)**	148	**(198)**	317
Comprehensive income	**$ 1,265**	$ 1,458	**$ 1,950**	$ 2,368

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

In millions		June 30 2019		December 31 2018
Assets				
Current assets				
Cash and cash equivalents	$	**128**	$	266
Restricted cash and cash equivalents *(Note 10)*		**484**		493
Accounts receivable		**1,275**		1,169
Material and supplies		**652**		557
Other current assets		**325**		243
Total current assets		**2,864**		2,728
Properties		**38,534**		37,773
Operating lease right-of-use assets *(Note 11)*		**562**		—
Pension asset		**694**		446
Intangible assets, goodwill and other *(Note 3)*		**348**		267
Total assets	**$**	**43,002**	$	41,214
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and other	$	**2,285**	$	2,316
Current portion of long-term debt		**1,842**		1,184
Total current liabilities		**4,127**		3,500
Deferred income taxes		**7,619**		7,480
Other liabilities and deferred credits		**657**		501
Pension and other postretirement benefits		**698**		707
Long-term debt		**11,512**		11,385
Operating lease liabilities *(Note 11)*		**407**		—
Shareholders' equity				
Common shares		**3,661**		3,634
Common shares in Share Trusts *(Note 10)*		**(149)**		(175)
Additional paid-in capital		**390**		408
Accumulated other comprehensive loss *(Note 13)*		**(3,047)**		(2,849)
Retained earnings		**17,127**		16,623
Total shareholders' equity		**17,982**		17,641
Total liabilities and shareholders' equity	**$**	**43,002**	$	41,214

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

In millions	Number of common shares Outstanding	Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at March 31, 2019	722.4	1.6	$ 3,653	$ (139)	$ 382	$ (2,950)	$ 16,582	$ 17,528
Net income							1,362	1,362
Stock options exercised	0.2		27		(3)			24
Settlement of equity settled awards	—	—		—	(5)		(4)	(9)
Stock-based compensation expense and other					16		—	16
Repurchase of common shares *(Note 10)*	(3.6)		(19)				(426)	(445)
Share purchases by Share Trusts	—	—		(10)				(10)
Other comprehensive loss *(Note 13)*						(97)		(97)
Dividends							(387)	(387)
Balance at June 30, 2019	**719.0**	**1.6**	**$ 3,661**	**$ (149)**	**$ 390**	**$ (3,047)**	**$ 17,127**	**$ 17,982**

In millions	Number of common shares Outstanding	Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2018	725.3	2.0	$ 3,634	$ (175)	$ 408	$ (2,849)	$ 16,623	$ 17,641
Net income							2,148	2,148
Stock options exercised	0.8		65		(9)			56
Settlement of equity settled awards	0.5	(0.5)		45	(50)		(57)	(62)
Stock-based compensation expense and other					41		(1)	40
Repurchase of common shares *(Note 10)*	(7.5)		(38)				(839)	(877)
Share purchases by Share Trusts	(0.1)	0.1		(19)				(19)
Other comprehensive loss *(Note 13)*						(198)		(198)
Dividends							(776)	(776)
Cumulative-effect adjustment from the adoption of ASU 2016-02 (1)							29	29
Balance at June 30, 2019	**719.0**	**1.6**	**$ 3,661**	**$ (149)**	**$ 390**	**$ (3,047)**	**$ 17,127**	**$ 17,982**

(1) The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019 using a modified retrospective approach with a cumulative-effect adjustment to Retained earnings recognized on January 1, 2019, with no restatement of comparative period financial information. See Note 2 - Recent accounting pronouncements for additional information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

	Number of common shares							
In millions	Outstanding	Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at March 31, 2018	736.7	1.6	$ 3,589	$ (137)	$ 406	$ (2,615)	$ 15,345	$ 16,588
Net income							1,310	1,310
Stock options exercised	0.9		60		(9)			51
Settlement of equity settled awards [(1)]	—	—		—	(20)		(4)	(24)
Stock-based compensation expense and other					16		(1)	15
Repurchase of common shares *(Note 10)*	(3.8)		(20)				(365)	(385)
Other comprehensive income *(Note 13)*						148		148
Dividends							(334)	(334)
Balance at June 30, 2018	733.8	1.6	$ 3,629	$ (137)	$ 393	$ (2,467)	$ 15,951	$ 17,369

	Number of common shares							
In millions	Outstanding	Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2017	742.6	2.0	$ 3,613	$ (168)	$ 434	$ (2,784)	$ 15,561	$ 16,656
Net income							2,051	2,051
Stock options exercised	1.1		69		(10)			59
Settlement of equity settled awards [(1)]	0.4	(0.4)		31	(62)		(27)	(58)
Stock-based compensation expense and other					31		(1)	30
Repurchase of common shares *(Note 10)*	(10.3)		(53)				(963)	(1,016)
Other comprehensive income *(Note 13)*						317		317
Dividends							(670)	(670)
Balance at June 30, 2018	733.8	1.6	$ 3,629	$ (137)	$ 393	$ (2,467)	$ 15,951	$ 17,369

(1) In the fourth quarter of 2018, the Company changed its presentation with respect to the settlement of equity settled awards when purchasing shares on the open market, on a retrospective basis. Comparative balances have been reclassified to conform to the current presentation. The impact of this reclassification on the balance at June 30, 2018 increased Additional paid-in capital by $281 million, decreased Common shares by $229 million and decreased Retained earnings by $52 million. See Note 14 - Share Capital to the Company's 2018 Annual Consolidated Financial Statements for additional information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

In millions	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Operating activities				
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**363**	330	**803**	653
Pension income and funding (1)	**(53)**	(52)	**(168)**	(120)
Deferred income taxes	**95**	114	**195**	229
Gain on disposal of property *(Note 7)*	**—**	(223)	**—**	(223)
Changes in operating assets and liabilities:				
Accounts receivable	**(41)**	(26)	**(69)**	(60)
Material and supplies	**20**	(33)	**(90)**	(129)
Accounts payable and other	**(67)**	216	**(454)**	15
Other current assets	**(7)**	18	**(1)**	(7)
Other operating activities, net (1)	**44**	28	**349**	28
Net cash provided by operating activities	**1,716**	1,682	**2,713**	2,437
Investing activities				
Property additions	**(1,183)**	(840)	**(1,886)**	(1,265)
Acquisition, net of cash acquired *(Note 3)*	**—**	—	**(167)**	—
Disposal of property *(Note 7)*	**—**	154	**—**	154
Other investing activities, net	**(20)**	(22)	**(28)**	(30)
Net cash used in investing activities	**(1,203)**	(708)	**(2,081)**	(1,141)
Financing activities				
Issuance of debt *(Note 10)*	**—**	—	**790**	1,286
Repayment of debt	**(35)**	(600)	**(40)**	(1,031)
Change in commercial paper, net *(Note 10)*	**135**	451	**121**	426
Settlement of foreign exchange forward contracts on debt	**7**	19	**15**	7
Issuance of common shares for stock options exercised	**24**	51	**56**	59
Withholding taxes remitted on the net settlement of equity settled awards *(Note 12)*	**(4)**	(12)	**(56)**	(46)
Repurchase of common shares *(Note 10)*	**(445)**	(385)	**(864)**	(1,000)
Purchase of common shares for settlement of equity settled awards	**(5)**	(12)	**(6)**	(12)
Purchase of common shares by Share Trusts	**(10)**	—	**(19)**	—
Dividends paid	**(387)**	(334)	**(776)**	(670)
Net cash used in financing activities	**(720)**	(822)	**(779)**	(981)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	**—**	2	**—**	11
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	**(207)**	154	**(147)**	326
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**819**	725	**759**	553
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 612**	$ 879	**$ 612**	$ 879
Cash and cash equivalents, end of period	**$ 128**	$ 394	**$ 128**	$ 394
Restricted cash and cash equivalents, end of period	**484**	485	**484**	485
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 612**	$ 879	**$ 612**	$ 879
Supplemental cash flow information				
Interest paid	**$ (91)**	$ (95)	**$ (242)**	$ (235)
Income taxes paid	**$ (249)**	$ (179)	**$ (491)**	$ (454)

(1) In the first quarter of 2019, the Company began presenting Pension income and funding as a separate line on the Consolidated Statements of Cash Flows. Previously pension income and funding was included in Other operating activities, net. Comparative figures have been adjusted to conform to the current presentation.

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 – Basis of presentation

In these notes, the "Company" or "CN" refers to Canadian National Railway Company, together with its wholly-owned subsidiaries.

The accompanying unaudited Interim Consolidated Financial Statements, expressed in Canadian dollars, have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial statements. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Interim operating results are not necessarily indicative of the results that may be expected for the full year.

These unaudited Interim Consolidated Financial Statements have been prepared using accounting policies consistent with those used in preparing CN's 2018 Annual Consolidated Financial Statements, except as disclosed in *Note 2 – Recent accounting pronouncements*, and should be read in conjunction with such statements and Notes thereto.

2 – Recent accounting pronouncements

The following recent Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) were adopted by the Company during the first half of 2019:

ASU 2016-02 Leases and related amendments (Topic 842)

The ASU requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for all leases greater than twelve months and requires additional qualitative and quantitative disclosures. The lessor accounting model under the new standard is substantially unchanged. The guidance must be applied using a modified retrospective approach. Entities may elect to apply the guidance to each prior period presented with a cumulative-effect adjustment to retained earnings recognized at the beginning of the earliest period presented or to apply the guidance with a cumulative-effect adjustment to retained earnings recognized at the beginning of the period of adoption.

The new standard provides a number of practical expedients and accounting policy elections upon transition. On January 1, 2019, the Company did not elect the package of three practical expedients that permits the Company not to reassess prior conclusions about lease qualification, classification and initial direct costs. Upon adoption, the Company elected the following practical expedients:

- the use-of-hindsight practical expedient to reassess the lease term and the likelihood that a purchase option will be exercised;
- the land easement practical expedient to not evaluate land easements that were not previously accounted for as leases under Topic 840;
- the short-term lease exemption for all asset classes that permits entities not to recognize right-of-use assets and lease liabilities onto the balance sheet for leases with terms of twelve months or less; and
- the practical expedient to not separate lease and non-lease components for the freight car asset category.

The Company adopted this standard in the first quarter of 2019 with an effective date of January 1, 2019 using a modified retrospective approach with a cumulative-effect adjustment to Retained earnings recognized on January 1, 2019, with no restatement of comparative period financial information. As at January 1, 2019, the cumulative-effect adjustment to adopt the new standard increased the balance of Retained earnings by $29 million, relating to a deferred gain on a sale-leaseback transaction of a real estate property. The initial adoption transition adjustment to record right-of-use assets and lease liabilities for leases over twelve months on the Company's Consolidated Balance Sheet was $756 million to each balance. The initial adoption transition adjustment is comprised of finance and operating leases of $215 million and $541 million, respectively. New finance lease right-of-use assets and finance lease liabilities are a result of the reassessment of leases with purchase options that are reasonably certain to be exercised by the Company under the transition to Topic 842, previously accounted for as operating leases.

ASU 2017-04 Intangibles - Goodwill and other (Topic 350), Simplifying the test for goodwill impairment

The ASU simplifies the goodwill impairment test by removing the requirement to compare the implied fair value of goodwill with its carrying amount. Under the new standard, goodwill impairment tests are performed by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, up to the value of goodwill. In addition, the standard simplifies the goodwill impairment test for reporting units with a zero or negative carrying amount, such that all reporting units apply the same impairment test. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets.

The guidance must be applied prospectively. The ASU is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Company adopted this standard in the first quarter of 2019 with an effective date of January 1, 2019. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements.

Accounting policy for goodwill

The Company recognizes goodwill as the excess of the purchase price over the fair value of net assets acquired in business combinations. Goodwill is not amortized. Instead, goodwill is tested for impairment annually as of the first day of the fiscal fourth quarter or more frequently when events or changes in circumstances indicate that the carrying amount may not be recoverable. If impairment exists, a loss is recognized.

Other recently issued ASUs required to be applied for periods beginning on or after June 30, 2019 have been evaluated by the Company and will not have a significant impact on the Company's Consolidated Financial Statements.

3 – Business combination

2019

Acquisition of the TransX Group of Companies

On March 20, 2019, the Company acquired the TransX Group of Companies ("TransX"). TransX provides various transportation and logistics services, including intermodal, truckload, less than truckload and specialized services. The acquisition positions CN to strengthen its intermodal business, and allows the Company to expand capacity and foster additional supply chain solutions. The acquisition was subject to a number of conditions, including regulatory review by the Competition Bureau Canada and Canada's Ministry of Transportation. On March 18, 2019, the Competition Bureau Canada issued a No Action Letter, satisfying the only outstanding condition and allowing the Company to close the transaction.

The Company's Consolidated Balance Sheet includes the assets and liabilities of TransX as of March 20, 2019, the acquisition date. Since the acquisition date, TransX's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

The total purchase price of $195 million included cash of $170 million and contingent consideration of $25 million, payable upon achievement of certain operational or financial targets through 2019. The fair value of contingent consideration was estimated on the acquisition date based on the expected outcome of operational and financial targets, which remained unchanged since that date. The fair value measure is based on Level 3 inputs not observable in the market. As of June 30, 2019, the maximum amount of contingent consideration that could be paid remained $25 million. The amount of contingent consideration is included in Accounts payable and other on the Company's Consolidated Balance Sheet.

The following table summarizes the consideration transferred to acquire TransX, as well as the preliminary fair value of the assets acquired and liabilities assumed, and goodwill that were recognized at the acquisition date:

In millions		March 20 2019
Consideration transferred		
Cash	$	170
Contingent consideration		25
Fair value of total consideration transferred	$	195
Recognized amounts of identifiable assets acquired and liabilities assumed (1)		
Current assets	$	92
Non-current assets (2)		260
Current liabilities		(131)
Non-current liabilities		(84)
Total identifiable net assets (3)	$	137
Goodwill (4)	$	58

(1) The Company's purchase price allocation is preliminary, based on information available to the Company to date, and subject to change over the measurement period, which may be up to one year from the acquisition date.

(2) Includes identifiable intangible assets of $34 million.

(3) Includes finance and operating lease right-of-use assets and liabilities.

(4) The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The goodwill is not deductible for tax purposes.

4 – Revenues

The following table provides disaggregated information for revenues:

	Three months ended June 30		Six months ended June 30	
In millions	**2019**	2018	**2019**	2018
Freight revenues				
Petroleum and chemicals	**$ 775**	$ 616	**$ 1,510**	$ 1,180
Metals and minerals	**440**	447	**861**	835
Forest products	**487**	490	**943**	912
Coal	**177**	175	**340**	317
Grain and fertilizers	**641**	591	**1,218**	1,130
Intermodal	**992**	863	**1,842**	1,677
Automotive	**247**	236	**458**	433
Total freight revenues	**$ 3,759**	$ 3,418	**$ 7,172**	$ 6,484
Other revenues	**200**	213	**331**	341
Total revenues (1)	**$ 3,959**	$ 3,631	**$ 7,503**	$ 6,825
Revenues by geographic area				
Canada	**$ 2,691**	$ 2,438	**$ 5,077**	$ 4,597
United States (U.S.)	**1,268**	1,193	**2,426**	2,228
Total revenues (1)	**$ 3,959**	$ 3,631	**$ 7,503**	$ 6,825

(1) As at June 30, 2019, the Company had remaining performance obligations related to freight in-transit, for which revenues of $85 million are expected to be recognized in the next period.

Contract liabilities

Contract liabilities represent consideration received from customers for which the related performance obligation has not been satisfied. Contract liabilities are recognized into revenues when or as the related performance obligation is satisfied. The Company includes contract liabilities within Accounts payable and other and Other liabilities and deferred credits on the Consolidated Balance Sheets.

The following table provides a reconciliation of the beginning and ending balances of contract liabilities for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
In millions	**2019**	2018	**2019**	2018
Beginning balance	**$ 241**	$ 4	**$ 3**	$ 3
Revenue recognized included in the beginning balance	**(2)**	—	**(2)**	(1)
Increase due to consideration received, net of revenue recognized	**4**	—	**242**	2
Ending balance	**$ 243**	$ 4	**$ 243**	$ 4
Current portion - End of period	**$ 54**	$ 4	**$ 54**	$ 4

5 – Properties

In the first quarter of 2019, the Company recognized an expense of $84 million related to costs previously capitalized for a Positive Train Control (PTC) back office system following the deployment of a replacement system. The expense was recognized in Depreciation and amortization on the Consolidated Statements of Income.

6 – Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Additional information relating to the retirement benefit plans is provided in *Note 13 – Pensions and other postretirement benefits* to the Company's 2018 Annual Consolidated Financial Statements.

The following table provides the components of net periodic benefit cost (income) for defined benefit pension and other postretirement benefit plans for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30				**Six months ended June 30**			
	Pensions		**Other postretirement benefits**		**Pensions**		**Other postretirement benefits**	
In millions	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Current service cost	**$ 36**	$ 38	**$ —**	$ —	**$ 76**	$ 79	**$ 1**	$ 1
Other components of net periodic benefit cost (income) (1)								
Interest cost	**149**	142	**2**	2	**298**	284	**4**	4
Expected return on plan assets	**(271)**	(271)	**—**	—	**(542)**	(542)	**—**	—
Amortization of prior service cost	**1**	1	**—**	—	**2**	2	**—**	—
Amortization of net actuarial loss (gain)	**37**	50	**(1)**	—	**77**	100	**(2)**	(1)
Total Other components of net periodic benefit cost (income) (1)	**(84)**	(78)	**1**	2	**(165)**	(156)	**2**	3
Net periodic benefit cost (income)	**$ (48)**	$ (40)	**$ 1**	$ 2	**$ (89)**	$ (77)	**$ 3**	$ 4

(1) In the second quarters of 2019 and 2018, the Company revised its estimate of full year net periodic benefit cost (income) for pensions to reflect updated plan demographic information.

Pension contributions

Pension contributions for the six months ended June 30, 2019 and 2018 of $91 million and $54 million, respectively, primarily represent contributions to the Company's main pension plan, the CN Pension Plan, for the current service cost as determined under the Company's applicable actuarial valuations for funding purposes. In 2019, the Company now expects to make total cash contributions of approximately $135 million for all of the Company's pension plans.

7 – Other income

Included in Other income are gains and losses on the disposal of land and property, foreign exchange gains and losses related to foreign exchange forward contracts and the re-measurement of foreign currency denominated monetary assets and liabilities, and other.

Disposal of property

2018

Central Station Railway Lease

On April 9, 2018, the Company completed the transfer of its finance lease in the passenger rail facilities in Montreal, Quebec together with its interests in related railway operating agreements (the "Central Station Railway Lease") for cash proceeds of $115 million. The transaction resulted in a gain of $184 million ($156 million after-tax) that was recorded in Other income on that date. The gain includes the difference between the net book value of the asset and the cash proceeds, the extinguishment of the finance lease obligation, and the recognition of a gain previously deferred from a sale-leaseback transaction.

Calgary Industrial Lead

On April 6, 2018, the Company completed the sale of land located in Calgary, Alberta, excluding the rail fixtures (the "Calgary Industrial Lead"), for cash proceeds of $39 million. The transaction resulted in a gain of $39 million ($34 million after-tax) that was recorded in Other income on that date.

8 – Income taxes

Income tax expense was $290 million and $535 million for the three and six months ended June 30, 2019, respectively, compared to $390 million and $640 million, respectively, for the same periods in 2018. The income tax expense for the three and six months ended June 30, 2019 includes a deferred income tax recovery of $112 million recorded in the second quarter resulting from the enactment of a lower provincial corporate income tax rate.

9 – Earnings per share

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2019**	2018	**2019**	2018
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Weighted-average basic shares outstanding	**721.8**	736.0	**723.5**	738.6
Dilutive effect of stock-based compensation	**2.7**	3.1	**2.6**	3.0
Weighted-average diluted shares outstanding	**724.5**	739.1	**726.1**	741.6
Basic earnings per share	**$ 1.89**	$ 1.78	**$ 2.97**	$ 2.78
Diluted earnings per share	**$ 1.88**	$ 1.77	**$ 2.96**	$ 2.77
Units excluded from the calculation as their inclusion would not have a dilutive effect				
Stock options	**0.3**	0.9	**0.7**	1.0
Performance share units	**0.2**	0.3	**0.2**	0.4

10 – Financing activities

Shelf prospectus and registration statement

On February 8, 2019, under its current shelf prospectus and registration statement, the Company issued $350 million 3.00% Notes due 2029 and $450 million 3.60% Notes due 2049 in the Canadian capital markets, which resulted in net proceeds of $790 million. The Company's shelf prospectus and registration statement, under which CN may issue debt securities in the Canadian and U.S. capital markets until March 13, 2020, has remaining capacity of $3.5 billion. Access to the Canadian and U.S. capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Revolving credit facility

The Company has an unsecured revolving credit facility with a consortium of lenders which is available for general corporate purposes including backstopping the Company's commercial paper programs. On March 15, 2019, the Company's revolving credit facility agreement was amended, which extended the term of the credit facility by one year and increased the credit facility from $1.8 billion to $2.0 billion, effective May 5, 2019. The amended credit facility of $2.0 billion consists of a $1.0 billion tranche maturing on May 5, 2022 and a $1.0 billion tranche maturing on May 5, 2024. Under the amended credit facility, the Company has the option to request an extension once a year to maintain the tenors of three years and five years of the respective tranches subject to the consent of the individual lenders. The accordion feature, which provides for an additional $500 million of credit under the facility, remains unchanged. The credit facility agreement contains customary terms and conditions, which were substantially unchanged by the amendment. The credit facility provides for borrowings at various benchmark interest rates, plus applicable margins, based on CN's debt credit ratings. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance.

As at June 30, 2019 and December 31, 2018, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the six months ended June 30, 2019.

Commercial paper

The Company has a commercial paper program in Canada and in the U.S. Both programs are backstopped by the Company's revolving credit facility. As of May 5, 2019, the maximum aggregate principal amount of commercial paper that could be issued increased from $1.8 billion to $2.0 billion, or the US dollar equivalent on a combined basis.

As at June 30, 2019 and December 31, 2018, the Company had total commercial paper borrowings of US$961 million ($1,258 million) and US$862 million ($1,175 million), respectively, both at a weighted-average interest rate of 2.47%, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

The following table provides a summary of cash flows associated with the issuance and repayment of commercial paper for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
In millions	**2019**	2018	**2019**	2018
Commercial paper with maturities less than 90 days				
Issuance of commercial paper	**$ 1,034**	$ 1,805	**$ 2,043**	$ 3,896
Repayment of commercial paper	**(1,060)**	(1,719)	**(2,324)**	(3,937)
Change in commercial paper with maturities less than 90 days, net	**(26)**	86	**(281)**	(41)
Commercial paper with maturities of 90 days or greater				
Issuance of commercial paper	**668**	469	**1,197**	571
Repayment of commercial paper	**(507)**	(104)	**(795)**	(104)
Change in commercial paper with maturities of 90 days or greater, net	**161**	365	**402**	467
Change in commercial paper, net	**$ 135**	$ 451	**$ 121**	$ 426

Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2021, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. As at June 30, 2019 and December 31, 2018, the Company had no proceeds received under the accounts receivable securitization program.

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 15, 2019, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2022. The agreements are held with various banks to support the Company's requirements to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued.

As at June 30, 2019, the Company had outstanding letters of credit of $394 million ($410 million as at December 31, 2018) under the committed facilities from a total available amount of $429 million ($447 million as at December 31, 2018) and $138 million ($137 million as at December 31, 2018) under the uncommitted facilities.

As at June 30, 2019, included in Restricted cash and cash equivalents was $399 million ($408 million as at December 31, 2018) and $80 million ($80 million as at December 31, 2018) which were pledged as collateral under the committed and uncommitted bilateral letter of credit facilities, respectively.

Repurchase of common shares

The Company may repurchase its common shares pursuant to a Normal Course Issuer Bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 22.0 million common shares between February 1, 2019 and January 31, 2020. As at June 30, 2019, the Company had repurchased 6.0 million common shares for $724 million under its current NCIB.

The Company repurchased 4.1 million common shares under its previous NCIB effective between October 30, 2018 and January 31, 2019, which allowed for the repurchase of up to 5.5 million common shares.

The following table provides the information related to the share repurchases for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2019**	2018	**2019**	2018
Number of common shares repurchased	**3.6**	3.8	**7.5**	10.3
Weighted-average price per share	**$ 122.86**	$ 100.78	**$ 116.86**	$ 98.70
Amount of repurchase (1)	**$ 445**	$ 385	**$ 877**	$ 1,016

(1) Includes settlements in subsequent periods.

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN's common shares on the open market, which are used to deliver common shares under the Share Units Plan and, beginning in 2019, the Employee Share Investment Plan (ESIP) (see *Note 12 – Stock-based compensation*). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan or the ESIP. Additional information relating to Share Trusts is provided in *Note 14 – Share capital* to the Company's 2018 Annual Consolidated Financial Statements.

11 – Leases

The Company engages in short and long-term leases for rolling stock including locomotives and freight cars, equipment, real estate and service contracts that contain embedded leases. The Company determines whether or not a contract contains a lease at inception. Leases with a term of twelve months or less are not recorded by the Company on the Consolidated Balance Sheets.

Finance and operating lease right-of-use assets and liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. Where the implicit interest rate is not determinable from the lease, the Company uses internal incremental borrowing rates by tenor and currency to initially measure leases over twelve months on the Consolidated Balance Sheets. Operating lease expense is recognized on a straight-line basis over the lease term.

The Company's lease contracts may contain termination, renewal, and/or purchase options, residual value guarantees, or a combination thereof, all of which are evaluated by the Company on a quarterly basis. The majority of renewal options available extend the lease term from one to five years. The Company accounts for such contract options when the Company is reasonably certain that it will exercise one of these options.

Lease contracts may contain lease and non-lease components that the Company generally accounts for separately, with the exception of the freight car asset category for which the Company has elected to not separate the lease and non-lease components.

The following table provides the Company’s lease costs for the three and six months ended June 30, 2019:

	Three months ended June 30	Six months ended June 30
In millions	**2019**	**2019**
Finance lease cost		
Amortization of right-of-use assets	**$ 2**	**$ 4**
Interest on lease liabilities	**2**	**4**
Total finance lease cost	**4**	**8**
Operating lease cost	**46**	**86**
Short-term lease cost	**11**	**22**
Variable lease cost (1)	**16**	**32**
Total lease cost (2)	**$ 77**	**$ 148**

(1) Mainly relates to leases of trucks for the Company's freight delivery service contracts.

(2) Includes lease costs from purchased services and material and equipment rents in the Consolidated Statements of Income.

The following table provides the Company's lease right-of-use assets and lease liabilities, and their classification on the Consolidated Balance Sheet as at June 30, 2019:

In millions	**Classification**		**June 30 2019**
Lease right-of-use assets			
Finance leases	Properties	$	**721**
Operating leases	Operating lease right-of-use assets		**562**
Total lease right-of-use assets		$	**1,283**
Lease liabilities			
Current			
Finance leases	Current portion of long-term debt	$	**171**
Operating leases	Accounts payable and other		**136**
Noncurrent			
Finance leases	Long-term debt		**105**
Operating leases	Operating lease liabilities		**407**
Total lease liabilities		$	**819**

The following table provides the remaining lease terms and discount rates for the Company's leases as at June 30, 2019:

	June 30 2019
Weighted-average remaining lease term *(years)*	
Finance leases	**1.5**
Operating leases	**7.0**
Weighted-average discount rate *(%)*	
Finance leases	**3.1%**
Operating leases	**3.2%**

The following table provides additional information for the Company's leases for the three and six months ended June 30, 2019:

In millions		**Three months ended June 30 2019**		**Six months ended June 30 2019**
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash outflows from operating leases	$	**46**	$	**87**
Operating cash outflows from finance leases	$	**2**	$	**4**
Financing cash outflows from finance leases	$	**15**	$	**20**
Right-of-use assets obtained in exchange for new finance lease liabilities	$	**—**	$	**—**
Right-of-use assets obtained in exchange for new operating lease liabilities	$	**25**	$	**41**

The following table provides the maturities of lease liabilities for the next five years and thereafter as at June 30, 2019:

In millions		Finance leases		Operating leases (1)		Total
2019	$	109	$	81	$	190
2020		77		130		207
2021		81		101		182
2022		11		67		78
2023		2		46		48
2024 and thereafter		7		181		188
Total lease payments	$	287	$	606	$	893
Less: Imputed interest		11		63		
Present value of lease payments	$	276	$	543		

(1) Includes $70 million related to renewal options that are reasonably certain to be exercised.

12 – Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the major plans is provided in *Note 15 – Stock-based compensation* to the Company's 2018 Annual Consolidated Financial Statements.

	Three months ended June 30				Six months ended June 30			
In millions		**2019**		2018		**2019**		2018
Share Units Plan (1)	**$**	**9**	$	12	**$**	**22**	$	17
Voluntary Incentive Deferral Plan (VIDP) (2)		**1**		3		**4**		1
Stock option awards		**4**		3		**7**		6
Employee share investment plan (ESIP)		**3**		9		**4**		18
Total stock-based compensation expense	**$**	**17**	$	27	**$**	**37**	$	42
Income tax impacts of stock-based compensation								
Tax benefit recognized in income	**$**	**3**	$	7	**$**	**8**	$	10
Excess tax benefit recognized in income	**$**	**1**	$	3	**$**	**21**	$	11

(1) Performance share unit (PSU) awards are granted under the Share Units Plan.

(2) Deferred share unit (DSU) awards are granted under the Voluntary Incentive Deferral Plan.

Share Units Plan

	Equity settled					
	PSUs-ROIC (1)			PSUs-TSR (2)		
	Units		Weighted-average grant date fair value	Units		Weighted-average grant date fair value
	In millions			*In millions*		
Outstanding at December 31, 2018	1.1	$	46.10	0.4	$	100.93
Granted	0.4	$	70.39	0.1	$	127.93
Settled (3)	(0.4)	$	35.11	(0.2)	$	95.31
Forfeited	—	$	57.01	—	$	111.16
Outstanding at June 30, 2019	**1.1**	**$**	**58.37**	**0.3**	**$**	**112.21**

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2019 of $25 million is calculated using a lattice-based valuation model. As at June 30, 2019, total unrecognized compensation cost related to all outstanding awards was $30 million and is expected to be recognized over a weighted-average period of 1.7 years.

(2) The grant date fair value of equity settled PSUs-TSR granted in 2019 of $15 million is calculated using a Monte Carlo simulation model. As at June 30, 2019, total unrecognized compensation cost related to all outstanding awards was $16 million and is expected to be recognized over a weighted-average period of 1.8 years.

(3) Equity settled PSUs-ROIC granted in 2016 met the minimum share price condition for settlement and attained a performance vesting factor of 200%. Equity settled PSUs-TSR granted in 2016 attained a performance vesting factor of 100%. In the first quarter of 2019, these awards were settled, net of the remittance of the participants' withholding tax obligation of $50 million, by way of disbursement from the Share Trusts of 0.5 million common shares.

Voluntary Incentive Deferral Plan

	Equity settled			Cash settled
	DSUs (1)			DSUs (2)
	Units	Weighted-average grant date fair value		Units
	In millions			In millions
Outstanding at December 31, 2018	0.8	$	79.23	0.2
Granted	0.1	$	113.59	—
Settled (3)	(0.2)	$	80.20	(0.1)
Outstanding at June 30, 2019 (4)	**0.7**	**$**	**81.67**	**0.1**

(1) The grant date fair value of equity settled DSUs granted in 2019 of $4 million is calculated using the Company's stock price on the grant date. As at June 30, 2019, the aggregate intrinsic value of all equity settled DSUs outstanding amounted to $88 million.

(2) The fair value of cash settled DSUs as at June 30, 2019 is based on the intrinsic value. As at June 30, 2019, the liability for all cash settled DSUs was $17 million ($19 million as at December 31, 2018). The closing stock price used to determine the liability was $121.20.

(3) For the six months ended June 30, 2019, the Company purchased 0.1 million common shares for the settlement of equity settled DSUs, net of the remittance of the participants' withholding tax obligation of $6 million.

(4) The total fair value of equity settled DSU awards vested, the number of units outstanding that were nonvested, unrecognized compensation cost and the remaining recognition period for cash and equity settled DSUs have not been quantified as they relate to a minimal number of units.

Stock option awards

	Options outstanding		
	Number of options	Weighted-average exercise price	
	In millions		
Outstanding at December 31, 2018 (1)	4.2	$	79.73
Granted (2)	0.9	$	110.62
Exercised	(0.8)	$	68.74
Forfeited	(0.1)	$	97.27
Outstanding at June 30, 2019 (1) (2) (3)	**4.2**	**$**	**86.43**
Exercisable at June 30, 2019 (1) (3)	**1.9**	**$**	**71.01**

(1) Stock options with a US dollar exercise price have been translated into Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) The grant date fair value of options granted in 2019 of $15 million ($16.27 per option) is calculated using the Black-Scholes option-pricing model. As at June 30, 2019, total unrecognized compensation cost related to all outstanding awards was $17 million and is expected to be recognized over a weighted-average period of 2.1 years.

(3) The weighted-average term to expiration of options outstanding was 7.1 years and the weighted-average term to expiration of exercisable stock options was 5.4 years. As at June 30, 2019, the aggregate intrinsic value of in-the-money stock options outstanding amounted to $146 million and the aggregate intrinsic value of stock options exercisable amounted to $97 million.

Employee Share Investment Plan

The Company has an ESIP which gives eligible employees the opportunity to subscribe for up to 10% of their gross salaries to purchase shares of the Company on the open market. Participants receive a Company contribution equal to 35% of the amount invested, up to 6% of their gross salary.

Beginning January 1, 2019, Company contributions to the ESIP, which consist of shares purchased on the open market, are subject to a one-year vesting period and are forfeited should certain participant contributions be sold or disposed of prior to vesting. Company contributions to the ESIP are held in Share Trusts until vesting, at which time shares are delivered to the employee.

The following table provides a summary of the activity related to the ESIP:

	ESIP
	Shares
	In millions
Unvested contributions, December 31, 2018	—
Company contributions (1)	0.1
Unvested contributions, June 30, 2019	**0.1**

(1) The weighted average fair value of the shares contributed was $117.49.

13 – Accumulated other comprehensive loss

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Total before tax		Income tax recovery (expense) [(1)]		Total net of tax
Balance at March 31, 2019	$	(147)	$	(3,841)	$	(3,988)	$	1,038	$	(2,950)
Other comprehensive income (loss) before reclassifications:										
Foreign exchange loss on translation of net investment in foreign operations		(247)				(247)		—		(247)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations [(2)]		141				141		(19)		122
Amounts reclassified from Accumulated other comprehensive loss:										
Amortization of net actuarial loss				36		36 [(3)]		(9) [(4)]		27
Amortization of prior service cost				1		1 [(3)]		—		1
Other comprehensive income (loss)		(106)		37		(69)		(28)		(97)
Balance at June 30, 2019	**$**	**(253)**	**$**	**(3,804)**	**$**	**(4,057)**	**$**	**1,010**	**$**	**(3,047)**

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Total before tax		Income tax recovery (expense) [(1)]		Total net of tax
Balance at December 31, 2018	$	(41)	$	(3,881)	$	(3,922)	$	1,073	$	(2,849)
Other comprehensive income (loss) before reclassifications:										
Foreign exchange loss on translation of net investment in foreign operations		(526)				(526)		—		(526)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations [(2)]		314				314		(43)		271
Amounts reclassified from Accumulated other comprehensive loss:										
Amortization of net actuarial loss				75		75 [(3)]		(20) [(4)]		55
Amortization of prior service cost				2		2 [(3)]		—		2
Other comprehensive income (loss)		(212)		77		(135)		(63)		(198)
Balance at June 30, 2019	**$**	**(253)**	**$**	**(3,804)**	**$**	**(4,057)**	**$**	**1,010**	**$**	**(3,047)**

Footnotes to the tables follow on the next page.

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Total before tax		Income tax recovery (expense) (1)		Total net of tax
Balance at March 31, 2018	$	(337)	$	(3,072)	$	(3,409)	$	794	$	(2,615)
Other comprehensive income (loss) before reclassifications:										
Foreign exchange gain on translation of net investment in foreign operations		245				245		—		245
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations (2)		(155)				(155)		20		(135)
Amounts reclassified from Accumulated other comprehensive loss:										
Amortization of net actuarial loss				50		50 (3)		(13) (4)		37
Amortization of prior service cost				1		1 (3)		—		1
Other comprehensive income		90		51		141		7		148
Balance at June 30, 2018	$	(247)	$	(3,021)	$	(3,268)	$	801	$	(2,467)

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Total before tax		Income tax recovery (expense) (1)		Total net of tax
Balance at December 31, 2017	$	(444)	$	(3,122)	$	(3,566)	$	782	$	(2,784)
Other comprehensive income (loss) before reclassifications:										
Foreign exchange gain on translation of net investment in foreign operations		542				542		—		542
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations (2)		(345)				(345)		46		(299)
Amounts reclassified from Accumulated other comprehensive loss:										
Amortization of net actuarial loss				99		99 (3)		(27) (4)		72
Amortization of prior service cost				2		2 (3)		—		2
Other comprehensive income		197		101		298		19		317
Balance at June 30, 2018	$	(247)	$	(3,021)	$	(3,268)	$	801	$	(2,467)

(1) The Company releases stranded tax effects from Accumulated other comprehensive loss to Net income upon the liquidation or termination of the related item.

(2) The Company designates US dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in foreign operations. Accordingly, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated debt are recorded in Accumulated other comprehensive loss, which minimizes the volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(3) Reclassified to Other components of net periodic benefit income in the Consolidated Statements of Income and included in net periodic benefit cost. See Note 6 - Pensions and other postretirement benefits.

(4) Included in Income tax expense in the Consolidated Statements of Income.

14 – Major commitments and contingencies

Purchase commitments

As at June 30, 2019, the Company had fixed and variable commitments to purchase locomotives, rail, wheels, engineering services, information technology services and licenses, railroad ties, rail cars, as well as other equipment and services with a total estimated cost of $1,975 million. Costs of variable commitments were estimated using forecasted prices and volumes.

Contingencies

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

As at June 30, 2019, the Company had aggregate reserves for personal injury and other claims of $345 million, of which $91 million was recorded as a current liability ($346 million as at December 31, 2018, of which $97 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending as at June 30, 2019, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations.

The Company is or may be liable for remediation costs at individual sites, in some cases along with other potentially responsible parties, associated with actual or alleged contamination. The ultimate cost of addressing these known contaminated sites cannot be definitively established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

As at June 30, 2019, the Company had aggregate accruals for environmental costs of $61 million, of which $42 million was recorded as a current liability ($61 million as at December 31, 2018, of which $39 million was recorded as a current liability). The Company anticipates that the majority of the liability at June 30, 2019 will be paid out over the next five years. Based on the information currently available, the Company considers its accruals to be adequate.

Guarantees and indemnifications

A description of the Company's guarantees and indemnifications is provided in *Note 17 – Major commitments and contingencies* to the Company's 2018 Annual Consolidated Financial Statements.

As at June 30, 2019, the Company had outstanding letters of credit of $394 million ($410 million as at December 31, 2018) under the committed bilateral letter of credit facilities and $138 million ($137 million as at December 31, 2018) under the uncommitted bilateral letter of credit facilities, and surety and other bonds of $147 million ($160 million as at December 31, 2018), all issued by financial institutions with investment grade credit ratings to third parties to indemnify them in the event the Company does not perform its contractual obligations.

As at June 30, 2019, the maximum potential liability under these guarantee instruments was $679 million ($707 million as at December 31, 2018), of which $641 million ($659 million as at December 31, 2018) related to other employee benefit liabilities and workers' compensation and $38 million ($48 million as at December 31, 2018) related to other liabilities. The guarantee instruments expire at various dates between 2019 and 2021.

As at June 30, 2019, the Company had not recorded a liability with respect to guarantees and indemnifications as the Company did not expect to make any payments under its guarantees and indemnifications.

15 – Financial instruments

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes. As at June 30, 2019, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,294 million (US$1,465 million as at December 31, 2018). Changes in the fair value of foreign exchange forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur.

For the three and six months ended June 30, 2019, the Company recorded a loss of $26 million and $70 million, respectively, related to foreign exchange forward contracts compared to a gain of $41 million and $85 million, respectively, for the same periods in 2018. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recorded in Other income.

As at June 30, 2019, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $nil and $28 million, respectively ($67 million and $nil, respectively, as at December 31, 2018).

Fair value of financial instruments

The financial instruments that the Company measures at fair value on a recurring basis in periods subsequent to initial recognition are categorized into the following levels of the fair value hierarchy based on the degree to which inputs are observable:

- Level 1: Inputs are quoted prices for identical instruments in active markets
- Level 2: Significant inputs (other than quoted prices included in Level 1) are observable
- Level 3: Significant inputs are unobservable

The carrying amounts of Cash and cash equivalents and Restricted cash and cash equivalents approximate fair value. These financial instruments include highly liquid investments purchased three months or less from maturity, for which the fair value is determined by reference to quoted prices in active markets.

The carrying amounts of Accounts receivable, Other current assets, and Accounts payable and other approximate fair value. The fair value of these financial instruments is not determined using quoted prices, but rather from market observable information. The fair value of derivative financial instruments, classified as Level 2, used to manage the Company's exposure to foreign currency risk and included in Other current assets and Accounts payable and other is measured by discounting future cash flows using a discount rate derived from market data for financial instruments subject to similar risks and maturities.

The carrying amount of the Company's debt does not approximate fair value. The fair value is estimated based on quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. The Company classifies debt as Level 2. As at June 30, 2019, the Company's debt, excluding finance leases, had a carrying amount of $13,078 million ($12,540 million as at December 31, 2018) and a fair value of $14,887 million ($13,287 million as at December 31, 2018).

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) dated July 23, 2019, relates to the consolidated financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or the "Company," and should be read in conjunction with the Company's 2019 unaudited Interim Consolidated Financial Statements and Notes thereto. It should also be read in conjunction with the Company's 2018 audited Annual Consolidated Financial Statements and Notes thereto, and the 2018 Annual MD&A. All financial information reflected herein is expressed in Canadian dollars and prepared in accordance with United States generally accepted accounting principles (GAAP), unless otherwise noted.

CN's common shares are listed on the Toronto and New York stock exchanges. Additional information about CN filed with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC), including the Company's 2018 Annual Information Form and Form 40-F, may be found online on SEDAR at www.sedar.com, on the SEC's website at www.sec.gov through EDGAR, and on the Company's website at www.cn.ca in the Investors section. Printed copies of such documents may be obtained by contacting CN's Corporate Secretary's Office.

Business profile

CN is engaged in the rail and related transportation business. CN's network, of approximately 20,000 route miles of track, spans Canada and mid-America, uniquely connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network and efficient connections to all Class I railroads provide CN customers access to Canada, the United States (U.S.) and Mexico. A true backbone of the economy, CN handles over $250 billion worth of goods annually and carries over 300 million tons of cargo, serving exporters, importers, retailers, farmers and manufacturers.

CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. For the year ended December 31, 2018, no individual commodity group accounted for more than 25% of total revenues. From a geographic standpoint, 15% of revenues relate to U.S. domestic traffic, 34% transborder traffic, 17% Canadian domestic traffic and 34% overseas traffic. The Company is the originating carrier for over 85%, and the originating and terminating carrier for over 65%, of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Strategy overview

A description of the Company's strategy is provided in the section entitled *Strategy overview* of the Company's 2018 Annual MD&A.

2019 Second quarter highlights

- CN attained record second-quarter net income and diluted earnings per share.
- CN attained record quarterly revenues, operating income, adjusted net income and adjusted diluted earnings per share. (1)
- CN added more than $300 million in top-line growth with revenues up 9% and volumes up 2% in terms of revenue ton miles (RTMs) when compared to the same period in 2018.
- Net income increased by $52 million, or 4%, to $1,362 million, and diluted earnings per share increased by 6% to $1.88, in the second quarter of 2019 when compared to the same period in 2018.
- Adjusted net income increased by $130 million, or 12%, to $1,250 million, and adjusted diluted earnings per share increased by 15% to $1.73, in the second quarter of 2019 when compared to the same period in 2018. (1)
- Operating income was $1,682 million in the second quarter of 2019, an increase of $163 million, or 11%, over the same quarter of 2018.
- Operating ratio was 57.5% in the second quarter of 2019, a 0.7-point improvement from the second quarter of 2018.
- Free cash flow was $513 million in the second quarter of 2019, a decrease of $461 million over the same period in 2018. (2)
- The Company repurchased 3.6 million common shares, returning $445 million to its shareholders, in the second quarter of 2019.
- CN paid a quarterly dividend of $0.5375 per share, representing an increase of 18% when compared to the same period in 2018, amounting to $387 million.

(1) See the section of this MD&A entitled Adjusted performance measures for an explanation of these non-GAAP measures.

(2) See the section of this MD&A entitled Liquidity and capital resources – Free cash flow for an explanation of this non-GAAP measure.

Acquisitions

On May 9, 2019, the Company announced it had reached an agreement to acquire the intermodal division of the Alberta-based H&R Transport Limited ("H&R"). The acquisition positions CN to expand its presence in moving customer goods by offering more end to end rail supply chain solutions to a wider range of customers. As at July 23, 2019, the acquisition remains subject to customary closing conditions.

On March 20, 2019, following satisfaction of all closing conditions, the Company acquired the TransX Group of Companies ("TransX"). TransX provides various transportation and logistics services, including intermodal, truckload, less than truckload and specialized services. The acquisition positions CN to strengthen its intermodal business, and allows the Company to expand capacity and foster additional supply chain solutions, to continue to create value for customers. TransX's results of operations have been included in the Company's results of operations, since the acquisition date, March 20, 2019. TransX’s revenues are included as freight revenues within the intermodal commodity group. The inclusion of TransX’s results of operations impacted the Company’s Revenues and Operating expenses, in particular Purchased services and materials and Labor and fringe benefits, for the three and six months ended June 30, 2019 when compared to the same periods in 2018. See the section of this MD&A entitled *Liquidity and capital resources - Investing activities* for additional information.

2019 Business outlook and assumptions

For 2019, the Company continues to expect growth across a range of commodities, particularly in petroleum crude, Canadian coal exports, Canadian grain, intermodal traffic and U.S. grain compared to 2018. The Company also continues to expect lower volumes of potash compared to 2018. The Company now expects volumes of refined petroleum products and natural gas liquids to be higher, and volumes of lumber, frac sand and U.S. coal exports to be lower for 2019 compared to 2018.

Underpinning the 2019 business outlook, the Company now assumes that North American industrial production will increase by approximately one percent. For the 2018/2019 crop year, the grain crops in both Canada and the U.S. were in line with their respective three-year averages. The Company assumes that the 2019/2020 grain crop in Canada will be in line with the three-year average and now assumes that the 2019/2020 grain crop in the U.S. will be below the three-year average.

The forward-looking statements discussed in this section are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed or implied in such statements and are based on certain factors and assumptions which the Company considers reasonable, about events, developments, prospects and opportunities that may not materialize or that may be offset entirely or partially by other events and developments. In addition to the assumptions and expectations discussed in this section, reference should be made to the section of this MD&A entitled *Forward-looking statements* for assumptions and risk factors affecting such statements.

Forward-looking statements

Certain statements included in this MD&A are "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. Forward-looking statements may be identified by the use of terminology such as "believes," "expects," "anticipates," "assumes," "outlook," "plans," "targets" or other similar words.

Forward-looking statements include, but are not limited to, those set forth in the table below, which also presents key assumptions used in determining the forward-looking statements. See also the section of this MD&A entitled *Strategy overview - 2019 Business outlook and assumptions.*

Forward-looking statements	Key assumptions
Statements relating to revenue growth opportunities, including those referring to general economic and business conditions	• North American and global economic growth • Long-term growth opportunities being less affected by current economic conditions
Statements relating to the Company's ability to meet debt repayments and future obligations in the foreseeable future, including income tax payments, and capital spending	• North American and global economic growth • Adequate credit ratios • Investment-grade credit ratings • Access to capital markets • Adequate cash generated from operations and other sources of financing
Statements relating to pension contributions	• Adequate cash generated from operations and other sources of financing • Adequate long-term return on investment on pension plan assets • Level of funding as determined by actuarial valuations, particularly influenced by discount rates for funding purposes

Forward-looking statements are not guarantees of future performance and involve 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; increases in maintenance and operating costs; security threats; reliance on technology and related cybersecurity risk; trade restrictions or other changes to international trade arrangements; transportation of hazardous materials; various events which could disrupt operations, including natural events such as severe weather, droughts, fires, 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; timing and completion of capital programs; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the U.S., including its Annual Information Form and Form 40-F. See the section entitled *Business risks* of this MD&A and the Company's 2018 Annual MD&A 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.

Financial highlights

In millions, except percentage and per share data	Three months ended June 30 **2019**	2018	Six months ended June 30 **2019**	2018
Revenues	**$ 3,959**	$ 3,631	**$ 7,503**	$ 6,825
Operating income	**$ 1,682**	$ 1,519	**$ 2,762**	$ 2,549
Adjusted operating income (1)	**$ 1,682**	$ 1,519	**$ 2,846**	$ 2,549
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Adjusted net income (1)	**$ 1,250**	$ 1,120	**$ 2,098**	$ 1,861
Basic earnings per share	**$ 1.89**	$ 1.78	**$ 2.97**	$ 2.78
Adjusted basic earnings per share (1)	**$ 1.73**	$ 1.52	**$ 2.90**	$ 2.52
Diluted earnings per share	**$ 1.88**	$ 1.77	**$ 2.96**	$ 2.77
Adjusted diluted earnings per share (1)	**$ 1.73**	$ 1.51	**$ 2.90**	$ 2.51
Dividends declared per share	**$ 0.5375**	$ 0.4550	**$ 1.0750**	$ 0.9100
Total assets	**$ 43,002**	$ 39,805	**$ 43,002**	$ 39,805
Total long-term liabilities	**$ 20,893**	$ 18,006	**$ 20,893**	$ 18,006
Operating ratio	**57.5%**	58.2%	**63.2%**	62.7%
Adjusted operating ratio (1)	**57.5%**	58.2%	**62.1%**	62.7%
Free cash flow (2)	**$ 513**	$ 974	**$ 799**	$ 1,296

(1) See the section of this MD&A entitled Adjusted performance measures for an explanation of these non-GAAP measures.

(2) See the section of this MD&A entitled Liquidity and capital resources – Free cash flow for an explanation of this non-GAAP measure.

Financial results

Second quarter and first half of 2019 compared to corresponding periods in 2018

Net income for the second quarter of 2019 was $1,362 million, an increase of $52 million, or 4%, and diluted earnings per share increased by 6% to $1.88, when compared to the same period in 2018. Net income for the six months ended June 30, 2019 was $2,148 million, an increase of $97 million, or 5%, and diluted earnings per share increased by 7% to $2.96, when compared to the same period in 2018.

Operating income for the quarter ended June 30, 2019 increased by $163 million, or 11%, to $1,682 million when compared to the same period in 2018. Operating income for the six months ended June 30, 2019 increased by $213 million, or 8%, to $2,762 million when compared to the same period in 2018. The increase in the second quarter was mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar; partly offset by higher purchased services and material costs. The increase in the first half was mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by higher depreciation and amortization expense related to costs previously capitalized for a Positive Train Control (PTC) back office system following the deployment of a replacement system, higher purchased services and material costs, and increased labor costs.

The operating ratio, defined as operating expenses as a percentage of revenues, was 57.5% in the second quarter of 2019, compared to 58.2% in the second quarter of 2018, a 0.7-point improvement. The six-month operating ratio was 63.2% in 2019 compared to 62.7% in 2018, a 0.5-point increase. The inclusion of TransX increased the Company's operating ratio by 1.1 points and 0.6 points for the second quarter and first half of 2019, respectively.

Revenues for the second quarter of 2019 were $3,959 million compared to $3,631 million for the same period in 2018, an increase of $328 million, or 9%. Revenues for the first half of 2019 were $7,503 million, an increase of $678 million, or 10%, when compared to the same period in 2018. The increases in both periods were mainly due to the inclusion of TransX in the intermodal commodity group, the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes primarily from petroleum crude and Canadian and U.S. grain, which were partly offset by lower volumes of frac sand, lumber and potash.

Operating expenses for the second quarter of 2019 were $2,277 million compared to $2,112 million for the same period in 2018, an increases of $165 million, or 8%. Operating expenses for the first half of 2019 were $4,741 million compared to $4,276 million for the same period in 2018, an increase of $465 million, or 11%. The increases in both periods were mainly driven by the inclusion of TransX, the negative translation impact of a weaker Canadian dollar, and higher costs resulting from increased volumes of traffic. The first half of 2019 also included the impact of increased depreciation and amortization expense related to costs previously capitalized for a PTC back office system following the deployment of a replacement system.

Non-GAAP measures

This MD&A makes reference to non-GAAP measures, including adjusted performance measures, constant currency, free cash flow and adjusted debt-to-adjusted EBITDA multiple, that do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. From management's perspective, these non-GAAP measures are useful measures of performance and provide investors with supplementary information to assess the Company's results of operations and liquidity. These non-GAAP measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP.

For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the sections entitled *Adjusted performance measures, Constant currency* and *Liquidity and capital resources*.

Adjusted performance measures

Management believes that adjusted net income, adjusted earnings per share, adjusted operating income and adjusted operating ratio are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of CN's normal day-to-day operations and could distort the analysis of trends in business performance. Management uses adjusted performance measures, which exclude certain income and expense items in its results that management believes are not reflective of CN's underlying business operations, to set performance goals and as a means to measure CN's performance. The exclusion of such income and expense items in these measures does not, however, imply that these items are necessarily non-recurring. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

For the three and six months ended June 30, 2019, the Company's adjusted net income was $1,250 million, or $1.73 per diluted share, and $2,098 million, or $2.90 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2019 exclude a deferred income tax recovery of $112 million ($0.15 per diluted share), resulting from the enactment of a lower provincial corporate income tax rate. The adjusted figures for the six months ended June 30, 2019 also exclude a depreciation and amortization expense of $84 million, or $62 million after-tax ($0.09 per diluted share) in the first quarter, related to costs previously capitalized for a PTC back office system following the deployment of a replacement system.

For the three and six months ended June 30, 2018, the Company's adjusted net income was $1,120 million, or $1.51 per diluted share, and $1,861 million, or $2.51 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2018 exclude a gain on transfer of the Company’s capital lease in the passenger rail facilities in downtown Montreal together with its interests in related railway operating agreements (the “Central Station Railway Lease”) of $184 million, or $156 million after-tax ($0.21 per diluted share), and a gain on disposal of land located in Calgary, excluding the rail fixtures (the “Calgary Industrial Lead”), of $39 million, or $34 million after-tax ($0.05 per diluted share).

The following table provides a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2019**	2018	**2019**	2018
Net income	**$ 1,362**	$ 1,310	**$ 2,148**	$ 2,051
Adjustments:				
Depreciation and amortization	**—**	—	**84**	—
Other income	**—**	(223)	**—**	(223)
Income tax expense (recovery) [(1)]	**(112)**	33	**(134)**	33
Adjusted net income	**$ 1,250**	$ 1,120	**$ 2,098**	$ 1,861
Basic earnings per share	**$ 1.89**	$ 1.78	**$ 2.97**	$ 2.78
Impact of adjustments, per share	**(0.16)**	(0.26)	**(0.07)**	(0.26)
Adjusted basic earnings per share	**$ 1.73**	$ 1.52	**$ 2.90**	$ 2.52
Diluted earnings per share	**$ 1.88**	$ 1.77	**$ 2.96**	$ 2.77
Impact of adjustments, per share	**(0.15)**	(0.26)	**(0.06)**	(0.26)
Adjusted diluted earnings per share	**$ 1.73**	$ 1.51	**$ 2.90**	$ 2.51

(1) *The tax effect of adjustments reflects tax rates in the applicable jurisdiction and the nature of the item for tax purposes.*

The following table provides a reconciliation of operating income and operating ratio, as reported for the three and six months ended June 30, 2019 and 2018, to the adjusted performance measures presented herein:

In millions, except percentage	Three months ended June 30 **2019**	Three months ended June 30 2018	Six months ended June 30 **2019**	Six months ended June 30 2018
Operating income	**$ 1,682**	$ 1,519	**$ 2,762**	$ 2,549
Adjustment: Depreciation and amortization	**—**	—	**84**	—
Adjusted operating income	**$ 1,682**	$ 1,519	**$ 2,846**	$ 2,549
Operating ratio [1]	**57.5%**	58.2%	**63.2%**	62.7%
Impact of adjustment	**—**	—	**(1.1)-pts**	—
Adjusted operating ratio	**57.5%**	58.2%	**62.1%**	62.7%

(1) Operating ratio is defined as operating expenses as a percentage of revenues.

Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period in the prior year. The average foreign exchange rates were $1.34 and $1.33 per US$1.00 for the three and six months ended June 30, 2019, respectively, and $1.29 and $1.28 per US$1.00 for the three and six months ended June 30, 2018, respectively.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2019 would have been lower by $28 million ($0.04 per diluted share) and $58 million ($0.08 per diluted share), respectively.

Revenues

In millions, unless otherwise indicated	Three months ended June 30 **2019**	2018	% Change	% Change at constant currency	Six months ended June 30 **2019**	2018	% Change	% Change at constant currency
Freight revenues	**$ 3,759**	$ 3,418	10%	8%	**$ 7,172**	$ 6,484	11%	8%
Other revenues	**200**	213	(6%)	(8%)	**331**	341	(3%)	(6%)
Total revenues	**$ 3,959**	$ 3,631	9%	7%	**$ 7,503**	$ 6,825	10%	7%
Freight revenues								
Petroleum and chemicals	**$ 775**	$ 616	26%	23%	**$ 1,510**	$ 1,180	28%	24%
Metals and minerals	**440**	447	(2%)	(4%)	**861**	835	3%	—%
Forest products	**487**	490	(1%)	(3%)	**943**	912	3%	—%
Coal	**177**	175	1%	—%	**340**	317	7%	5%
Grain and fertilizers	**641**	591	8%	7%	**1,218**	1,130	8%	6%
Intermodal	**992**	863	15%	14%	**1,842**	1,677	10%	8%
Automotive	**247**	236	5%	2%	**458**	433	6%	2%
Total freight revenues	**$ 3,759**	$ 3,418	10%	8%	**$ 7,172**	$ 6,484	11%	8%
Revenue ton miles (RTMs) *(millions)*	**64,329**	63,021	2%	2%	**123,396**	120,206	3%	3%
Freight revenue/RTM *(cents)*	**5.84**	5.42	8%	6%	**5.81**	5.39	8%	5%
Carloads *(thousands)*	**1,538**	1,506	2%	2%	**2,956**	2,914	1%	1%
Freight revenue/carload *($)*	**2,444**	2,270	8%	5%	**2,426**	2,225	9%	6%

Revenues for the quarter ended June 30, 2019 were $3,959 million compared to $3,631 million in the same period in 2018, an increase of $328 million, or 9%. Revenues for the first half of 2019 were $7,503 million, an increase of $678 million, or 10%, when compared to the same period in 2018. The increases in both periods were mainly due to the inclusion of TransX in the intermodal commodity group, the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes primarily from petroleum crude and Canadian and U.S. grain, which were partly offset by lower volumes of frac sand, lumber and potash.

Fuel surcharge revenues increased by $13 million in the second quarter and $51 million in the first half of 2019 when compared to the same periods in 2018, mainly as a result of higher applicable fuel surcharge rates.

RTMs, measuring the relative weight and distance of freight transported by the Company, increased by 2% in the second quarter and 3% in the first half of 2019 when compared to the same periods in 2018. Freight revenue per RTM increased by 8% in both the second quarter and first half of 2019 when compared to the same periods in 2018, mainly driven by the inclusion of TransX, the positive translation impact of a weaker Canadian dollar and freight rate increases.

Petroleum and chemicals

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 775**	$ 616	26%	23%	**$ 1,510**	$ 1,180	28%	24%
RTMs *(millions)*	**14,357**	11,553	24%	24%	**27,106**	22,172	22%	22%
Revenue/RTM *(cents)*	**5.40**	5.33	1%	(1%)	**5.57**	5.32	5%	1%
Carloads *(thousands)*	**174**	155	12%	12%	**342**	308	11%	11%

Revenues for this commodity group increased by $159 million, or 26%, in the second quarter and $330 million, or 28%, in the first half of 2019 when compared to the same periods in 2018. The increases in both periods were mainly due to higher volumes of petroleum crude, refined petroleum products and natural gas liquids, freight rate increases and the positive translation impact of a weaker Canadian dollar.

Revenue per RTM increased by 1% in the second quarter and 5% in the first half of 2019 when compared to the same periods in 2018, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by a significant increase in the average length of haul.

Metals and minerals

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 440**	$ 447	(2%)	(4%)	**$ 861**	$ 835	3%	—%
RTMs *(millions)*	**6,832**	7,544	(9%)	(9%)	**13,402**	14,482	(7%)	(7%)
Revenue/RTM *(cents)*	**6.44**	5.93	9%	6%	**6.42**	5.77	11%	8%
Carloads *(thousands)*	**269**	265	2%	2%	**504**	507	(1%)	(1%)

Revenues for this commodity group decreased by $7 million, or 2%, in the second quarter and increased by $26 million, or 3%, in the first half of 2019 when compared to the same periods in 2018. The decrease in the second quarter was mainly due to lower volumes of frac sand, partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases. The increase in the first half was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by lower shipments of frac sand.

Revenue per RTM increased by 9% in the second quarter and 11% in the first half of 2019 when compared to the same periods in 2018, mainly due to a decrease in the average length of haul, the positive translation impact of a weaker Canadian dollar and freight rate increases.

Forest products

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 487**	$ 490	(1%)	(3%)	**$ 943**	$ 912	3%	—%
RTMs *(millions)*	**7,271**	7,922	(8%)	(8%)	**14,089**	14,883	(5%)	(5%)
Revenue/RTM *(cents)*	**6.70**	6.19	8%	5%	**6.69**	6.13	9%	6%
Carloads *(thousands)*	**100**	109	(8%)	(8%)	**196**	209	(6%)	(6%)

Revenues for this commodity group decreased by $3 million, or 1%, in the second quarter and increased by $31 million, or 3%, in the first half of 2019 when compared to the same periods in 2018. The decrease in the second quarter was mainly due to lower volumes of lumber and paper products, partly offset by freight rate increases and the positive translation impact of a weaker Canadian dollar. The increase in the first half was mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by lower volumes of lumber.

Revenue per RTM increased by 8% in the second quarter and 9% in the first half of 2019 when compared to the same periods in 2018, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar.

Coal

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 177**	$ 175	1%	—%	**$ 340**	$ 317	7%	5%
RTMs *(millions)*	**4,699**	4,734	(1%)	(1%)	**8,993**	8,442	7%	7%
Revenue/RTM *(cents)*	**3.77**	3.70	2%	1%	**3.78**	3.76	1%	(2%)
Carloads *(thousands)*	**90**	86	5%	5%	**170**	166	2%	2%

Revenues for this commodity group increased by $2 million, or 1%, in the second quarter and $23 million, or 7%, in the first half of 2019 when compared to the same periods in 2018. The increases in both periods were mainly due to higher metallurgical coal exports via west coast ports and higher volumes of domestic thermal coal to U.S. coal-fired utilities, freight rate increases, and the positive translation impact of a weaker Canadian dollar; partly offset by reduced U.S. thermal coal exports via the Gulf Coast.

Revenue per RTM increased by 2% in the second quarter and 1% in the first half of 2019 when compared to the same periods in 2018. The increase in the second quarter was mainly due to a decrease in the average length of haul, freight rate increases and the positive translation impact of a weaker Canadian dollar. The increase in the first half was mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by an increase in the average length of haul.

Grain and fertilizers

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 641**	$ 591	8%	7%	**$ 1,218**	$ 1,130	8%	6%
RTMs *(millions)*	**15,045**	14,585	3%	3%	**28,912**	28,190	3%	3%
Revenue/RTM *(cents)*	**4.26**	4.05	5%	3%	**4.21**	4.01	5%	3%
Carloads *(thousands)*	**167**	162	3%	3%	**316**	307	3%	3%

Revenues for this commodity group increased by $50 million, or 8%, in the second quarter and $88 million, or 8%, in the first half of 2019 when compared to the same periods in 2018. The increases in both periods were mainly due to higher export volumes of Canadian wheat and U.S. corn and soybeans, freight rate increases, and the positive translation impact of a weaker Canadian dollar; partly offset by lower volumes of potash.

Revenue per RTM increased by 5% in both the second quarter and first half of 2019 when compared to the same periods in 2018, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar.

Intermodal

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 992**	$ 863	15%	14%	**$ 1,842**	$ 1,677	10%	8%
RTMs *(millions)*	**15,034**	15,533	(3%)	(3%)	**28,882**	29,901	(3%)	(3%)
Revenue/RTM *(cents)*	**6.60**	5.56	19%	17%	**6.38**	5.61	14%	12%
Carloads *(thousands)*	**663**	657	1%	1%	**1,287**	1,281	—%	—%

Revenues for this commodity group increased by $129 million, or 15%, in the second quarter and $165 million, or 10%, in the first half of 2019 when compared to the same periods in 2018. The increases in both periods were mainly due to the inclusion of TransX. Also impacting both periods were higher international container traffic via the port of Prince Rupert, freight rate increases and the positive translation impact of a weaker Canadian dollar; partly offset by reduced domestic retail shipments as well as lower international container traffic via the port of Vancouver.

Revenue per RTM increased by 19% in the second quarter and 14% in the first half of 2019 when compared to the same periods in 2018, mainly due to the inclusion of TransX. Also impacting both periods were freight rate increases and the positive translation impact of a weaker Canadian dollar.

Automotive

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 247**	$ 236	5%	2%	**$ 458**	$ 433	6%	2%
RTMs *(millions)*	**1,091**	1,150	(5%)	(5%)	**2,012**	2,136	(6%)	(6%)
Revenue/RTM *(cents)*	**22.64**	20.52	10%	7%	**22.76**	20.27	12%	9%
Carloads *(thousands)*	**75**	72	4%	4%	**141**	136	4%	4%

Revenues for this commodity group increased by $11 million, or 5%, in the second quarter and $25 million, or 6%, in the first half of 2019 when compared to the same periods in 2018. The increases in both periods were mainly due to increased volumes of domestic finished vehicles and vehicles parts and the positive translation impact of a weaker Canadian dollar, partly offset by lower volumes of finished vehicle imports.

Revenue per RTM increased by 10% in the second quarter and 12% in the first half of 2019 when compared to the same periods in 2018, mainly due to a decrease in the average length of haul and the positive translation impact of a weaker Canadian dollar.

Other revenues

	Three months ended June 30				Six months ended June 30			
	2019	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 200**	$ 213	(6%)	(8%)	**$ 331**	$ 341	(3%)	(6%)

Other revenues decreased by $13 million, or 6%, in the second quarter and $10 million, or 3%, in the first half of 2019 when compared to the same periods in 2018. The decreases in both periods were mainly due to lower revenues from vessels.

Operating expenses

Operating expenses for the second quarter of 2019 were $2,277 million compared to $2,112 million in the same period of 2018. Operating expenses for the first half of 2019 were $4,741 million compared to $4,276 million in the same period of 2018. The increases of $165 million, or 8%, in the second quarter and $465 million, or 11%, in the first half of 2019 were mainly driven by the inclusion of TransX, the negative translation impact of a weaker Canadian dollar, and higher costs resulting from increased volumes of traffic. The first half of 2019 also included the impact of increased depreciation and amortization expense related to costs previously capitalized for a PTC back office system following the deployment of a replacement system.

	Three months ended June 30				Six months ended June 30			
In millions	**2019**	2018	% Change	% Change at constant currency	**2019**	2018	% Change	% Change at constant currency
Labor and fringe benefits	**$ 681**	$ 648	(5%)	(4%)	**$ 1,479**	$ 1,362	(9%)	(7%)
Purchased services and material	**571**	478	(19%)	(18%)	**1,129**	959	(18%)	(16%)
Fuel	**442**	436	(1%)	2%	**840**	829	(1%)	3%
Depreciation and amortization	**363**	330	(10%)	(8%)	**803**	653	(23%)	(21%)
Equipment rents	**104**	112	7%	10%	**218**	225	3%	6%
Casualty and other	**116**	108	(7%)	(5%)	**272**	248	(10%)	(6%)
Total operating expenses	**$ 2,277**	$ 2,112	(8%)	(6%)	**$ 4,741**	$ 4,276	(11%)	(8%)

Labor and fringe benefits

Labor and fringe benefits expense increased by $33 million, or 5%, in the second quarter and $117 million, or 9%, in the first half of 2019 when compared to the same periods in 2018. The increases were mainly due to higher headcount primarily due to the inclusion of TransX, general wage increases and the negative translation impact of a weaker Canadian dollar, partly offset by lower incentive based compensation.

Purchased services and material

Purchased services and material expense increased by $93 million, or 19%, in the second quarter and $170 million, or 18%, in the first half of 2019 when compared to the same periods in 2018. The increases were mainly due to the inclusion of TransX, higher repairs, maintenance and materials costs resulting from increased volumes of traffic, and the negative translation impact of a weaker Canadian dollar.

Fuel

Fuel expense increased by $6 million, or 1%, in the second quarter and $11 million, or 1%, in the first half of 2019 when compared to the same periods in 2018. The increases were mainly due to the negative translation impact of a weaker Canadian dollar and increased volumes of traffic, partly offset by lower fuel prices and productivity gains.

Depreciation and amortization

Depreciation and amortization expense increased by $33 million, or 10%, in the second quarter and $150 million, or 23%, in the first half of 2019 when compared to the same periods in 2018. The increase in the second quarter was mainly due to net asset additions and the negative translation impact of a weaker Canadian dollar. The increase in the first half was mainly due to an expense related to costs previously capitalized for a PTC back office system following the deployment of a replacement system, net asset additions and the negative translation impact of a weaker Canadian dollar.

Equipment rents

Equipment rents expense decreased by $8 million, or 7%, in the second quarter and $7 million, or 3%, in the first half of 2019 when compared to the same periods in 2018. The decreases were mainly due to lower costs for leased locomotives, partly offset by the negative translation impact of a weaker Canadian dollar.

Casualty and other

Casualty and other expense increased by $8 million, or 7%, in the second quarter and $24 million, or 10%, in the first half of 2019 when compared to the same periods in 2018. The increases were mainly due to higher incident costs and the negative translation impact of a weaker Canadian dollar, partly offset by lower legal provisions.

Other income and expenses

Interest expense

Interest expense was $136 million and $267 million for the three and six months ended June 30, 2019, respectively, compared to $124 million and $246 million, respectively, for the same periods in 2018. The increases were mainly due to a higher average level of debt and the negative translation impact of a weaker Canadian dollar, partly offset by a lower average interest rate.

Other components of net periodic benefit income

Other components of net periodic benefit income was $83 million and $163 million for the three and six months ended June 30, 2019, respectively, compared to $76 million and $153 million, respectively, for the same periods in 2018.

Other income

Other income was $23 million and $25 million for the three and six months ended June 30, 2019, respectively, compared to $229 million and $235 million, respectively, for the same periods in 2018. Included in Other income for both periods of 2018 was a gain on the transfer of the Central Station Railway Lease of $184 million and a gain on disposal of the Calgary Industrial Lead of $39 million.

Income tax expense

Income tax expense was $290 million and $535 million for the three and six months ended June 30, 2019, respectively, compared to $390 million and $640 million, respectively, for the same periods in 2018. Income tax expense for the six months ended June 30, 2019 included a deferred income tax recovery of $112 million recorded in the second quarter resulting from the enactment of a lower provincial corporate income tax rate.

The effective tax rates for the three and six months ended June 30, 2019 were 17.6% and 19.9%, respectively, compared to 22.9% and 23.8%, respectively, for the same periods in 2018. Excluding the aforementioned deferred income tax recovery, the effective tax rates for the three and six months ended June 30, 2019 were 24.3% and 24.1%, respectively. The increases in the effective tax rates were mainly attributable to lower gains on disposal of property in 2019, taxed at the lower capital gain inclusion rate.

Summary of quarterly financial data

	2019 Quarters		2018 Quarters				2017 Quarters	
In millions, except per share data	**Second**	First	Fourth	Third	Second	First	Fourth	Third
Revenues	**$ 3,959**	$ 3,544	$ 3,808	$ 3,688	$ 3,631	$ 3,194	$ 3,285	$ 3,221
Operating income (1)	**$ 1,682**	$ 1,080	$ 1,452	$ 1,492	$ 1,519	$ 1,030	$ 1,225	$ 1,379
Net income (1)	**$ 1,362**	$ 786	$ 1,143	$ 1,134	$ 1,310	$ 741	$ 2,611	$ 958
Basic earnings per share	**$ 1.89**	$ 1.08	$ 1.57	$ 1.55	$ 1.78	$ 1.00	$ 3.50	$ 1.28
Diluted earnings per share	**$ 1.88**	$ 1.08	$ 1.56	$ 1.54	$ 1.77	$ 1.00	$ 3.48	$ 1.27
Dividends per share	**$ 0.5375**	$ 0.5375	$ 0.4550	$ 0.4550	$ 0.4550	$ 0.4550	$ 0.4125	$ 0.4125

(1) Certain quarters include items that management believes do not necessarily arise as part of CN's normal day-to-day operations and can distort the analysis of trends in business performance. See the section entitled Adjusted performance measures of this MD&A as well as the Company's 2018 Annual MD&A for additional information on these items.

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace (see the section entitled *Business risks* of the Company's 2018 Annual MD&A). Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. Fluctuations in the Canadian dollar relative to the US dollar have also affected the conversion of the Company's US dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

Liquidity and capital resources

An analysis of the Company's liquidity and capital resources is provided in the section entitled *Liquidity and capital resources* of the Company's 2018 Annual MD&A. There were no significant changes during the first half of 2019, except as noted below.

As at June 30, 2019 and December 31, 2018, the Company had Cash and cash equivalents of $128 million and $266 million, respectively; Restricted cash and cash equivalents of $484 million and $493 million, respectively; and a working capital deficit of $1,263 million and $772 million, respectively. There are currently no specific requirements relating to working capital other than in the normal course of business as discussed herein.

The Company expects cash from operations and its various sources of financing to be sufficient to meet its ongoing obligations. The Company is not aware of any trends or expected fluctuations in its liquidity that would impact its ongoing operations or financial condition as at the date of this MD&A.

The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019 using a modified retrospective approach with no restatement of comparative period financial information. Comparative balances previously referred to as capital leases are now referred to as finance leases. See the section of this MD&A entitled *Recent accounting pronouncements* for additional information.

Available financing sources

Shelf prospectus and registration statement

On February 8, 2019, under its current shelf prospectus and registration statement, the Company issued $350 million 3.00% Notes due 2029 and $450 million 3.60% Notes due 2049 in the Canadian capital markets, which resulted in net proceeds of $790 million. The Company's shelf prospectus and registration statement, under which CN may issue debt securities in the Canadian and U.S. capital markets until March 13, 2020, has remaining capacity of $3.5 billion. Access to the Canadian and U.S. capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Revolving credit facility

On March 15, 2019, the Company's revolving credit facility agreement was amended, which extended the term of the credit facility by one year and increased the credit facility from $1.8 billion to $2.0 billion, effective May 5, 2019. The increase in capacity provides the Company with additional financial flexibility. The amended credit facility of $2.0 billion consists of a $1.0 billion tranche maturing on May 5, 2022 and a $1.0 billion tranche maturing on May 5, 2024. The accordion feature, which provides for an additional $500 million of credit under the facility, subject to the consent of individual lenders, remains unchanged. As at June 30, 2019 and December 31, 2018, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the six months ended June 30, 2019.

Commercial paper

The Company’s commercial paper programs are backstopped by the Company’s revolving credit facility. As of May 5, 2019, the maximum aggregate principal amount of commercial paper that could be issued increased from $1.8 billion to $2.0 billion, or the US dollar equivalent on a combined basis. As at June 30, 2019 and December 31, 2018, the Company had total commercial paper borrowings of US$961 million ($1,258 million) and US$862 million ($1,175 million), respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

Accounts receivable securitization program

As at June 30, 2019 and December 31, 2018, the Company had no proceeds received under the accounts receivable securitization program.

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 15, 2019, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2022. As at June 30, 2019, the Company had outstanding letters of credit of $394 million ($410 million as at December 31, 2018) under the committed facilities from a total available amount of $429 million ($447 million as at December 31, 2018) and $138 million ($137 million as at December 31, 2018) under the uncommitted facilities. As at June 30, 2019, included in Restricted cash and cash equivalents was $399 million ($408 million as at December 31, 2018) and $80 million ($80 million as at December 31, 2018) which were pledged as collateral under the committed and uncommitted bilateral letter of credit facilities, respectively.

Additional information relating to the Company's financing sources is provided in the section entitled *Liquidity and capital resources – Available financing sources* of the Company's 2018 Annual MD&A as well as *Note 10 – Financing activities* to the Company's unaudited Interim Consolidated Financial Statements.

Credit ratings

The Company's long-term debt and commercial paper credit ratings remain unchanged from those described in the section entitled *Liquidity and capital resources – Credit ratings* of the Company's 2018 Annual MD&A.

Cash flows

	Three months ended June 30			Six months ended June 30		
In millions	**2019**	2018	Variance	**2019**	2018	Variance
Net cash provided by operating activities	**$ 1,716**	$ 1,682	$ 34	**$ 2,713**	$ 2,437	$ 276
Net cash used in investing activities	**(1,203)**	(708)	(495)	**(2,081)**	(1,141)	(940)
Net cash used in financing activities	**(720)**	(822)	102	**(779)**	(981)	202
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash, and restricted cash equivalents	**—**	2	(2)	**—**	11	(11)
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	**(207)**	154	(361)	**(147)**	326	(473)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**819**	725	94	**759**	553	206
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 612**	$ 879	$ (267)	**$ 612**	$ 879	$ (267)

Operating activities

Net cash provided by operating activities increased by $34 million in the second quarter and $276 million in the first half of 2019 when compared to the same periods in 2018. The increase in the second quarter was mainly due to higher cash earnings, partly offset by unfavorable changes in working capital. The increase in the first half was mainly due to higher cash earnings and advance consideration received related to a long-term rail freight contract, partly offset by unfavorable changes in working capital.

Pension contributions

The Company's contributions to its various defined benefit pension plans are made in accordance with the applicable legislation in Canada and the U.S. and such contributions follow minimum and maximum thresholds as determined by actuarial valuations.

Actuarial valuations are generally required on an annual basis for all Canadian defined benefit pension plans, or when deemed appropriate by the Office of the Superintendent of Financial Institutions (OSFI). Actuarial valuations are also required annually for the Company's U.S. qualified defined benefit pension plans. For accounting purposes, the funded status is calculated under GAAP. For funding purposes, the funded status of the Company's Canadian registered defined benefit pension plans is calculated under going concern and solvency scenarios as prescribed under federal pension legislation and is subject to guidance issued by the Canadian Institute of Actuaries and OSFI. The federal pension legislation requires funding deficits to be paid over a number of years. Alternatively, a letter of credit can be subscribed to fulfill solvency deficit payments.

The Company's most recently filed actuarial valuations for funding purposes for its Canadian registered defined benefit pension plans conducted as at December 31, 2018 indicated a funding excess on a going concern basis of approximately $3.3 billion and a funding excess on a solvency basis of approximately $0.5 billion calculated using the three-year average of the plans' hypothetical wind-up ratio.

Pension contributions for the six months ended June 30, 2019 and 2018 of $91 million and $54 million, respectively, primarily represent contributions to the CN Pension Plan, for the current service cost as determined under the Company's applicable actuarial valuations for funding purposes. The increase was mainly due to higher current service cost contributions remitted in advance for 2019 compared to 2018. In 2019, the Company now expects to make total cash contributions of approximately $135 million for all of its pension plans.

Adverse changes to the assumptions used to calculate the Company's funding status, particularly the discount rate, as well as changes to existing federal pension legislation or regulator guidance could significantly impact the Company's future pension contributions.

Additional information relating to the pension plans is provided in *Note 13 – Pensions and other postretirement benefits* to the Company's 2018 Annual Consolidated Financial Statements.

Income tax payments

Net income tax payments for the six months ended June 30, 2019 and 2018 were $491 million and $454 million, respectively. The increase was due to higher income tax payments in the U.S., partially offset by lower required instalment payments in Canada. For 2019, the Company's net income tax payments are now expected to be approximately $850 million.

Investing activities

Net cash used in investing activities increased by $495 million in the second quarter and $940 million in the first half of 2019 when compared to the same periods in 2018, mainly as a result of higher property additions, primarily locomotives, and lower proceeds received from the disposal of property in the current year. The acquisition of TransX also contributed to the increase in investing activities in the first half of 2019.

Property additions

	Three months ended June 30		Six months ended June 30	
In millions	**2019**	2018	**2019**	2018
Track and roadway	**$ 724**	$ 639	**$ 1,007**	$ 933
Rolling stock	**303**	68	**761**	82
Buildings	**13**	12	**21**	21
Information technology	**95**	100	**175**	182
Other	**47**	21	**136**	47
Gross property additions	**1,182**	840	**2,100**	1,265
Less: Finance leases (1)	**(1)**	—	**214**	—
Property additions (2)	**$ 1,183**	$ 840	**$ 1,886**	$ 1,265

(1) Includes re-measurement of finance leases.

(2) Includes $50 million and $113 million associated with the U.S. federal government legislative PTC implementation in the three and six months ended June 30, 2019, respectively ($118 million and $232 million in the three and six months ended June 30, 2018, respectively).

Acquisition

On March 20, 2019, the Company acquired TransX for a total purchase price of $195 million, which included cash of $170 million and contingent consideration of $25 million. The contingent consideration is payable upon achievement of certain operational or financial targets through 2019.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed was performed on the basis of their respective fair values. The Company used a third party to assist in establishing the fair values of the assets acquired and liabilities assumed which resulted in the recognition of identifiable net assets of $137 million and goodwill of $58 million. The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The Company's purchase price allocation is preliminary and subject to change over the measurement period, which may be up to one year from the acquisition date.

The Company's Consolidated Balance Sheet includes the assets and liabilities of TransX as of March 20, 2019, the acquisition date. Since the acquisition date, TransX's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

See *Note 3 - Business combination* to the Company's unaudited Interim Consolidated Financial Statements for additional information.

2019 Capital expenditure program

For 2019, the Company continues to expect to invest approximately $3.9 billion in its capital program. Additional details of the Company's 2019 capital program are provided in the section entitled *Liquidity and capital resources – Cash flows* of the Company's 2018 Annual MD&A.

Financing activities

Net cash used in financing activities decreased by $102 million in the second quarter and $202 million in the first half of 2019 when compared to the same periods in 2018. The decrease in the second quarter was primarily driven by lower repayment of debt, partly offset by lower net issuance of commercial paper. The decrease in the first half was mainly due to higher net issuance of debt and lower repurchases of common shares, partly offset by lower net issuance of commercial paper and higher dividends paid.

Debt financing activities

Debt financing activities in the first half of 2019 included the following:

- On February 8, 2019, issuance of $350 million 3.00% Notes due 2029 and $450 million 3.60% Notes due 2049 in the Canadian capital markets, which resulted in total net proceeds of $790 million; and
- Net issuance of commercial paper of $135 million in the second quarter and $121 million in the first half.

Debt financing activities in the first half of 2018 included the following:

- On May 15, 2018, repayment of US$325 million ($415 million) 5.55% Notes due 2018 upon maturity;
- On February 6, 2018, issuance of US$300 million ($374 million) 2.40% Notes due 2020 and US$600 million ($749 million) 3.65% Notes due 2048 in the U.S. capital markets, which resulted in total net proceeds of $1,106 million;
- Net issuance of commercial paper of $451 million in the second quarter and $426 million in the first half;
- Proceeds from the accounts receivable securitization program of $180 million in the first half;
- Repayment of accounts receivable securitization borrowings of $180 million in the second quarter and $600 million in the first half; and
- Repayment of finance leases of $5 million in the second quarter and $16 million in the first half.

Additional information relating to the Company's outstanding debt securities is provided in *Note 11 – Debt* to the Company's 2018 Annual Consolidated Financial Statements.

Repurchase of common shares

The Company may repurchase its common shares pursuant to a Normal Course Issuer Bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 22.0 million common shares between February 1, 2019 and January 31, 2020. As at June 30, 2019, the Company had repurchased 6.0 million common shares for $724 million under its current NCIB.

The Company repurchased 4.1 million common shares under its previous NCIB effective between October 30, 2018 and January 31, 2019, which allowed for the repurchase of up to 5.5 million common shares.

The following table provides the information related to the share repurchases for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2019**	2018	**2019**	2018
Number of common shares repurchased	**3.6**	3.8	**7.5**	10.3
Weighted-average price per share	**$ 122.86**	$ 100.78	**$ 116.86**	$ 98.70
Amount of repurchase (1)	**$ 445**	$ 385	**$ 877**	$ 1,016

(1) Includes settlements in subsequent periods.

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN's common shares on the open market, which are used to deliver common shares under the Share Units Plan and, beginning in 2019, the Employee Share Investment Plan (ESIP). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan or the ESIP. Additional information relating to Share Trusts is provided in *Note 14 – Share capital* to the Company's 2018 Annual Consolidated Financial Statements.

Dividends paid

The Company paid quarterly dividends of $0.5375 per share amounting to $387 million and $776 million in the second quarter and first half of 2019, respectively, compared to $334 million and $670 million, respectively, at the quarterly rate of $0.4550 per share for the same periods in 2018.

Contractual obligations

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations for the following items as at June 30, 2019:

In millions	**Total**	2019	2020	2021	2022	2023	2024 & thereafter
Debt obligations [1]	**$ 13,078**	$ 1,278	$ 383	$ 765	$ 319	$ 189	$ 10,144
Interest on debt obligations	**9,796**	269	502	493	475	460	7,597
Finance lease obligations [2]	**287**	109	77	81	11	2	7
Operating lease obligations [3]	**606**	81	130	101	67	46	181
Purchase obligations [4]	**1,975**	1,039	486	173	118	81	78
Other long-term liabilities [5]	**730**	44	73	54	46	41	472
Total contractual obligations	**$ 26,472**	**$ 2,820**	**$ 1,651**	**$ 1,667**	**$ 1,036**	**$ 819**	**$ 18,479**

(1) Presented net of unamortized discounts and debt issuance costs and excludes finance lease obligations.

(2) Includes $11 million of imputed interest.

(3) Includes $70 million related to renewal options reasonably certain to be exercised and $63 million of imputed interest.

(4) Includes fixed and variable commitments for locomotives, rail, wheels, engineering services, information technology services and licenses, railroad ties, rail cars, as well as other equipment and services. Costs of variable commitments were estimated using forecasted prices and volumes.

(5) Includes expected payments for workers' compensation, postretirement benefits other than pensions, net unrecognized tax benefits, environmental liabilities and pension obligations that have been classified as contractual settlement agreements.

Free cash flow

Management believes that free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends, share repurchases, and strategic opportunities. The Company defines its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities, adjusted for the impact of business acquisitions, if any. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net cash provided by operating activities as reported for the three and six months ended June 30, 2019 and 2018, to free cash flow:

	Three months ended June 30		**Six months ended June 30**	
In millions	**2019**	2018	**2019**	2018
Net cash provided by operating activities	**$ 1,716**	$ 1,682	**$ 2,713**	$ 2,437
Net cash used in investing activities	**(1,203)**	(708)	**(2,081)**	(1,141)
Net cash provided before financing activities	**513**	974	**632**	1,296
Adjustment: Acquisition, net of cash acquired [1]	**—**	—	**167**	—
Free cash flow	**$ 513**	$ 974	**$ 799**	$ 1,296

(1) Relates to the acquisition of TransX. See the section of this MD&A entitled Liquidity and capital resources - Investing activities for additional information.

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple is a useful credit measure because it reflects the Company's ability to service its debt and other long-term obligations. The Company calculates the adjusted debt-to-adjusted EBITDA multiple as adjusted debt divided by adjusted EBITDA. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and net income to the adjusted measures presented below, which have been used to calculate the adjusted debt-to-adjusted EBITDA multiple:

In millions, unless otherwise indicated	*As at and for the twelve months ended June 30,*	**2019**	2018
Debt		**$ 13,354**	$ 11,874
Adjustments:			
Operating lease liabilities, including current portion (1)		**543**	491
Pension plans in deficiency		**475**	459
Adjusted debt		**$ 14,372**	$ 12,824
Net income		**$ 4,425**	$ 5,620
Interest expense		**510**	482
Income tax expense (recovery)		**1,249**	(396)
Depreciation and amortization		**1,479**	1,285
EBITDA		**7,663**	6,991
Adjustments:			
Other income		**(166)**	(244)
Other components of net periodic benefit income		**(312)**	(309)
Operating lease cost (1)		**202**	195
Adjusted EBITDA		**$ 7,387**	$ 6,633
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**1.95**	1.93

(1) The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019. The Company now includes operating lease liabilities, as defined by Topic 842, in adjusted debt and excludes operating lease cost, as defined by Topic 842, in adjusted EBITDA. Comparative balances previously referred to as present value of operating lease commitments and operating lease expense have not been adjusted and are now referred to as operating lease liabilities and operating lease cost, respectively. See the section of this MD&A entitled Recent accounting pronouncements for additional information.

All forward-looking statements discussed in this section are subject to risks and uncertainties and are based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments. See the section of this MD&A entitled *Forward-looking statements* for a discussion of assumptions and risk factors affecting such forward-looking statements.

Off balance sheet arrangements

Guarantees and indemnifications

In the normal course of business, the Company enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, standby letters of credit, surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business. As at June 30, 2019, the Company has not recorded a liability with respect to guarantees and indemnifications. Additional information relating to guarantees and indemnifications is provided in *Note 14 – Major commitments and contingencies* to the Company's unaudited Interim Consolidated Financial Statements.

Outstanding share data

As at July 23, 2019, the Company had 718.1 million common shares and 4.1 million stock options outstanding.

Financial instruments

Risk management

In the normal course of business, the Company is exposed to various risks from its use of financial instruments, such as credit risk, liquidity risk, and market risks which include foreign currency risk, interest rate risk and commodity price risk. A description of these risks and how the Company manages them, is provided in the section entitled *Financial instruments* of the Company's 2018 Annual MD&A.

Foreign currency risk

The estimated annual impact on Net income of a one-cent change in the Canadian dollar relative to the US dollar is approximately $30 million.

Derivative financial instruments

As at June 30, 2019, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,294 million (US $1,465 million as at December 31, 2018). For the three and six months ended June 30, 2019, the Company recorded loss of $26 million and $70 million, respectively, related to foreign exchange forward contracts compared to a gain of $41 million and $85 million, respectively, for the same periods in 2018. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recorded in Other income.

As at June 30, 2019, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $nil and $28 million, respectively ($67 million and $nil, respectively, as at December 31, 2018).

Fair value of financial instruments

As at June 30, 2019, the Company's debt, excluding finance leases, had a carrying amount of $13,078 million ($12,540 million as at December 31, 2018) and a fair value of $14,887 million ($13,287 million as at December 31, 2018).

Additional information relating to financial instruments is provided in *Note 15 – Financial instruments* to the Company's unaudited Interim Consolidated Financial Statements.

Recent accounting pronouncements

The following recent ASUs issued by the Financial Accounting Standards Board (FASB) were adopted by the Company during the first half of 2019:

ASU 2016-02 Leases and related amendments (Topic 842)

The ASU requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for all leases greater than twelve months and requires additional qualitative and quantitative disclosures. The lessor accounting model under the new standard is substantially unchanged. The guidance must be applied using a modified retrospective approach. Entities may elect to apply the guidance to each prior period presented with a cumulative-effect adjustment to retained earnings recognized at the beginning of the earliest period presented or to apply the guidance with a cumulative-effect adjustment to retained earnings recognized at the beginning of the period of adoption.

The new standard provides a number of practical expedients and accounting policy elections upon transition. On January 1, 2019, the Company did not elect the package of three practical expedients that permits the Company not to reassess prior conclusions about lease qualification, classification and initial direct costs. Upon adoption, the Company elected the following practical expedients:

- the use-of-hindsight practical expedient to reassess the lease term and the likelihood that a purchase option will be exercised;
- the land easement practical expedient to not evaluate land easements that were not previously accounted for as leases under Topic 840;
- the short-term lease exemption for all asset classes that permits entities not to recognize right-of-use assets and lease liabilities onto the balance sheet for leases with terms of twelve months or less; and
- the practical expedient to not separate lease and non-lease components for the freight car asset category.

The Company adopted this standard in the first quarter of 2019 with an effective date of January 1, 2019 using a modified retrospective approach with a cumulative-effect adjustment to Retained earnings recognized on January 1, 2019, with no restatement of comparative period financial information. As at January 1, 2019, the cumulative-effect adjustment to adopt the new standard increased the balance of Retained earnings by $29 million, relating to a deferred gain on a sale-leaseback transaction of a real estate property. The initial adoption transition adjustment to record right-of-use assets and lease liabilities for leases over twelve months on the Company's Consolidated Balance Sheet was $756 million to each balance. The initial adoption transition adjustment is comprised of finance and operating leases of $215 million and $541 million, respectively. New finance lease right-of-use assets and finance lease liabilities are a result of the reassessment of leases with purchase options that are reasonably certain to be exercised by the Company under the transition to Topic 842, previously accounted for as operating leases.

ASU 2017-04 Intangibles - Goodwill and other (Topic 350), Simplifying the test for goodwill impairment

The ASU simplifies the goodwill impairment test by removing the requirement to compare the implied fair value of goodwill with its carrying amount. Under the new standard, goodwill impairment tests are performed by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, up to the value of goodwill. In addition, the standard simplifies the goodwill impairment test for reporting units with a zero or negative carrying amount, such that all reporting units apply the same impairment test. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets.

The guidance must be applied prospectively. The ASU is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Company adopted this standard in the first quarter of 2019 with an effective date of January 1, 2019. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements.

Other recently issued ASUs required to be applied for periods beginning on or after June 30, 2019 have been evaluated by the Company and will not have a significant impact on the Company's Consolidated Financial Statements.

Critical accounting estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon available information. Actual results could differ from these estimates. The Company's policies for income taxes, capital expenditures, depreciation, pensions and other postretirement benefits, personal injury and other claims, and environmental matters, require management's more significant judgments and estimates in the preparation of the Company's Consolidated Financial Statements and, as such, are considered to be critical. Reference is made to the section entitled *Critical accounting estimates* of the Company's 2018 Annual MD&A for a detailed description of the Company's critical accounting estimates. There have not been any material changes to these estimates in the first half of 2019.

Management discusses the development and selection of the Company's critical accounting policies, including the underlying estimates and assumptions, with the Audit Committee of the Company's Board of Directors. The Audit Committee has reviewed the Company's related disclosures.

Business risks

In the normal course of business, the Company is exposed to various business risks and uncertainties that can have an effect on the Company's results of operations, financial position, or liquidity. While some exposures may be reduced by the Company's risk management strategies, many risks are driven by external factors beyond the Company's control or are of a nature which cannot be eliminated.

Reference is made to the section entitled *Business risks* of the Company's 2018 Annual MD&A for a detailed description of such key areas of business risks and uncertainties with respect to: Competition, Environmental matters, Personal injury and other legal claims, Labor negotiations, Regulation, Economic conditions, Pension funding volatility, Reliance on technology and related cybersecurity risk, Trade restrictions, Terrorism and international conflicts, Customer credit risk, Liquidity, Supplier concentration, Availability of qualified personnel, Fuel costs, Foreign exchange, Interest rates, Transportation network disruptions, Severe weather and Climate change, which is incorporated herein by reference. Additional risks and uncertainties not currently known to management or that may currently not be considered material by management, could nevertheless also have an adverse effect on the Company's business.

There have been no material changes to the risks described in the Company's 2018 Annual MD&A. The following is an update on environmental matters, labor negotiations, regulatory matters and trade restrictions.

Environmental matters

On June 21, 2019, Parliament adopted Bill C-69 which, amongst other legislative updates, enacts the new *Impact Assessment Act* that will replace, as of a date to be determined by the Governor in Council, the current *Canadian Environmental Assessment Act, 2012*. The list of projects, including railway projects, subject to the new *Impact Assessment Act* will be adopted by regulations currently being developed through consultations, to which CN participated.

Labor negotiations

As at June 30, 2019, CN employed a total of 19,367 employees in Canada, of which 13,686, or 71%, were unionized employees, and 7,848 employees in the U.S., of which 6,531, or 83%, were unionized employees.

Canadian workforce

On February 5, 2019, the collective agreement with the United Steelworkers governing track and bridge workers was ratified by its members, renewing the collective agreement for a five-year term expiring on December 31, 2023.

On March 22, 2019, CN received notice to commence collective bargaining with the Teamsters Canada Rail Conference (TCRC) to renew the collective agreements covering conductors and yard service employees. On June 26, 2019, the Minister of Labour appointed conciliators to assist the parties in their negotiations.

On May 10, 2019, the collective agreements with Unifor for three bargaining units covering clerical and intermodal employees, and other classifications, were ratified by its members, renewing the collective agreements for a 45-month term expiring on December 31, 2022.

On May 10, 2019, the tentative agreement reached with Unifor to renew the collective agreement governing owner-operator truck drivers was rejected by the membership. Bargaining continues to renew that collective agreement.

On June 14, 2019, the collective agreement with the TCRC governing rail traffic controllers was ratified by its members, renewing the collective agreements for a four-year term expiring on December 31, 2022.

U.S. workforce

Collective agreements covering all non-operating and operating craft employees at Grand Trunk Western Railroad Company (GTW), companies owned by Illinois Central Corporation (ICC), companies owned by Wisconsin Central Ltd. (WC) and Bessemer & Lake Erie Railroad Company (BLE), and all employees at Pittsburgh and Conneaut Dock Company (PCD) have been ratified with the exception of one union group. The collective bargaining agreement covering laborers represented by the United Steelworkers at PCD continues to be bargained on a local basis. The terms and conditions of existing agreements generally continue to apply until new agreements are reached or the processes of the *Railway Labor Act* have been exhausted.

There can be no assurance that the Company will be able to renew and have its collective agreements ratified without any strikes or lockouts or that the resolution of these collective bargaining negotiations will not have a material adverse effect on the Company’s results of operations or financial position.

Regulation

Economic regulation - U.S.

Pursuant to the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), the U.S. Congress authorized the Surface Transportation Board (STB) to investigate any railroad over whose track Amtrak operates that fails to meet heightened performance standards jointly promulgated by the Federal Railroad Administration (FRA) and Amtrak for Amtrak operations extending over two calendar quarters and to determine the cause of such failures. Should the STB commence an investigation and determine that a failure to meet these standards is due to the host railroad’s failure to provide preference to Amtrak, the STB is authorized to assess damages against the host railroad.

The rail industry had previously challenged as unconstitutional Congress’ delegation to Amtrak and the FRA of joint authority to promulgate the PRIIA performance standards. On March 23, 2017, the U.S. District Court for the District of Columbia concluded that Section 207 of PRIIA was void and unconstitutional and vacated the performance standards. The Government defendants challenged this decision in the U.S. Court of Appeals for the District of Columbia. On July 20, 2018, the U.S. Court of Appeals for the District of Columbia Circuit reversed the judgment of the District Court and held that the constitutional defect could be appropriately remedied by severing the arbitration provision in Section 207(d). The U.S. Court of Appeals noted that the aspect of the District Court’s decision that vacated the performance standards is final because the Government defendants did not challenge it on appeal. On October 24, 2018, the U.S. Court of Appeals denied the rail industry's petition for rehearing. On June 3, 2019, the U.S. Supreme Court denied the rail industry’s petition for review.

Safety regulation - Canada

On May 24, 2019, Transport Canada published the proposed *Locomotive Voice and Video Recorder Regulations* ("LVVR") and invited interested parties to comment by July 24, 2019. The LVVR draft regulations, to be adopted pursuant to the *Transportation Modernization Act* (Bill C-49), will require railway companies to procure and install LVVR equipment within two years after their coming into force. The LVVR regulations set out the technical specifications of the equipment, deal with record keeping, provide for privacy protection and detail how railway companies can access the information on a random basis. LVVR technology will assist in preventing accidents and facilitate investigations to better understand the circumstances of accidents. CN expects to provide its submission by July 24, 2019.

Safety regulation - U.S.

On February 28, 2019, in coordination with the FRA, the Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a final rule for oil spill response plans and information sharing for high-hazard flammable trains for the purpose of improving oil spill response readiness and mitigating the effects of oil-related rail incidents. On March 29, 2019, the Association of American Railroads sought reconsideration from PHMSA of certain aspects of the final rule.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the Canadian and U.S. federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Trade restrictions

Global as well as North American trade conditions, including trade barriers on certain commodities, may interfere with the free circulation of goods across Canada and the U.S. or the cost associated therewith. Following the expiration of the Softwood Lumber Agreement (SLA) between Canada and the U.S., including the expiration of the one-year moratorium period preventing the U.S. from launching any trade action against Canadian producers, on January 3, 2018, based on affirmative final determinations by both the U.S. Department of Commerce and the U.S. International Trade Commission, antidumping and countervailing duty orders were imposed on imports of Canadian softwood lumber to the U.S. Canada responded to the imposition by the U.S. of antidumping and countervailing duties, in connection with lumber and other commodities, by filing a complaint with the World Trade Organization (WTO). In June 2019, Canada appealed the WTO panel ruling of April 2019 that allowed the U.S. to continue to use their current methodology to calculate anti-dumping tariffs on lumber.

On November 30, 2018, the U.S., Canada and Mexico signed the United States-Mexico-Canada Agreement (USMCA), a new trade agreement to replace the North American Free Trade Agreement, which is subject to ratification by the legislature of Canada and the U.S., with Mexico having ratified it on June 19, 2019. On May 17, 2019, Canada and the U.S. reached an understanding on tariffs of steel and aluminum to eliminate all tariffs the U.S. imposed on Canadian imports of steel and aluminum, and all tariffs Canada imposed in retaliation for the action taken by the U.S.

It remains too early to assess the potential outcome of the legislative path toward ratification of the USMCA by Canada and the U.S., and other ongoing various trade actions taken by governments and agencies. As such, there can be no assurance that the USMCA and other trade actions will not materially adversely affect the volume of rail shipments and/or revenues from commodities carried by the Company, and thus materially and negatively impact earnings and/or cash flow.

Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2019, have concluded that the Company's disclosure controls and procedures were effective.

During the second quarter ended June 30, 2019, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.