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2019 QUARTERLY REVIEW FIRST QUARTER

Celebrating 100 years

CN reports solid Q1-2019 financial results with strong top-line growth

Railway reports record Q1 revenues despite severe winter operating conditions

MONTREAL, April 29, 2019 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2019.

"I'm pleased that the CN team continued to deliver very solid results during the first quarter of 2019," said JJ Ruest, president and chief executive officer of CN. "Despite a prolonged period of historic cold temperatures in key segments of our network, CN railroaders delivered record first-quarter carload volumes, adding $350M of top-line growth, while improving year-over-year car velocity. We remain on track to deliver on our 2019 financial outlook (2) and on our ability to bring long-term value creation to our customers and shareholders."

Financial results highlights
First-quarter 2019 compared to first-quarter 2018

- Revenues increased by 11 per cent to C$3,544 million.
- Diluted earnings per share (EPS) increased by eight per cent to C$1.08 and adjusted diluted EPS increased by 17 per cent to C$1.17. (1)
- Operating ratio of 69.5 per cent, an increase of 1.7 points.
- Adjusted operating ratio of 67.2 per cent, an improvement of 0.6 points. (1)
- Operating income increased by five per cent to C$1,080 million.

Reaffirmed 2019 financial outlook (2)
CN still aims to deliver 2019 adjusted diluted EPS growth in the low double-digits range this year versus last year's adjusted diluted EPS of C$5.50 (1) and continues to expect high single-digit volume growth in 2019 in terms of revenue ton miles (RTMs).

First-quarter 2019 revenues, traffic volumes and expenses
Revenues for the first quarter of 2019 were C$3,544 million, an increase of C$350 million or 11 per cent, when compared to the same period in 2018. The increase in revenues was mainly attributable to the positive translation impact of a weaker Canadian dollar, freight rate increases, higher volumes of petroleum crude, refined petroleum products, coal and Canadian grain, and higher applicable fuel surcharge rates, partly offset by lower volumes of frac sand. Carloadings for the quarter increased by one per cent to 1,418 thousand.

RTMs, measuring the relative weight and distance of rail freight transported by CN, increased by three per cent from the year-earlier period. Rail freight revenue per RTM increased by eight per cent over the year-earlier period, mainly driven by the positive translation impact of a weaker Canadian dollar, freight rate increases and higher applicable fuel surcharge rates, partly offset by an increase in the average length of haul.

Operating expenses for the first quarter increased by 14 per cent to C$2,464 million, mainly driven by an expense related to costs previously capitalized for a Positive Train Control back office system following the deployment of a replacement system, increased labor costs mainly as a result of an increase in headcount, higher costs due to more challenging winter conditions, and the negative translation impact of a weaker Canadian dollar.

(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 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 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 assumes that North American industrial production for the year will increase by approximately two per cent, and now assumes U.S. housing starts of approximately 1.25 million units (compared to its January 29, 2019 assumption of approximately 1.28 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 crops in both Canada and the United States will be in line with their respective three-year averages. CN assumes total RTMs in 2019 will increase in the high 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 now 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 (compared to its January 29, 2019 assumption in the range of US$50 to US$55 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 March 31	
	2019	2018
Financial measures		
Key financial performance indicators (1)		
Total revenues *($ millions)*	**3,544**	3,194
Rail freight revenues *($ millions)*	**3,413**	3,066
Operating income *($ millions)*	**1,080**	1,030
Adjusted operating income *($ millions)* (2)	**1,164**	1,030
Net income *($ millions)*	**786**	741
Adjusted net income *($ millions)* (2)	**848**	741
Diluted earnings per share *($)*	**1.08**	1.00
Adjusted diluted earnings per share *($)* (2)	**1.17**	1.00
Free cash flow *($ millions)* (2)	**286**	322
Gross property additions *($ millions)*	**918**	425
Share repurchases *($ millions)*	**432**	631
Dividends per share *($)*	**0.5375**	0.4550
Financial position (1)		
Total assets *($ millions)*	**42,609**	38,758
Total liabilities *($ millions)*	**25,081**	22,170
Shareholders' equity *($ millions)*	**17,528**	16,588
Financial ratio		
Operating ratio *(%)*	**69.5**	67.8
Adjusted operating ratio *(%)* (2)	**67.2**	67.8
Operational measures (3)		
Statistical operating data		
Gross ton miles (GTMs) *(millions)*	**115,859**	113,040
Revenue ton miles (RTMs) *(millions)*	**59,067**	57,185
Carloads *(thousands)*	**1,418**	1,408
Route miles *(includes Canada and the U.S.)*	**19,500**	19,500
Employees *(end of period)*	**27,119**	24,812
Employees *(average for the period)*	**26,024**	24,467
Key operating measures		
Rail freight revenue per RTM *(cents)*	**5.78**	5.36
Rail freight revenue per carload *($)*	**2,407**	2,178
GTMs per average number of employees *(thousands)*	**4,452**	4,620
Operating expenses per GTM *(cents)*	**2.13**	1.91
Labor and fringe benefits expense per GTM *(cents)*	**0.69**	0.63
Diesel fuel consumed *(US gallons in millions)*	**117.5**	112.8
Average fuel price *($/US gallon)*	**3.04**	3.16
GTMs per US gallon of fuel consumed	**986**	1,002
Car velocity *(car miles per day)*	**173**	160
Through dwell *(hours)*	**8.7**	9.9
Through network train speed *(miles per hour)*	**17.1**	17.3
Locomotive utilization *(trailing GTMs per total horsepower)*	**186**	200
Safety indicators (4)		
Injury frequency rate *(per 200,000 person hours)*	**2.20**	2.14
Accident rate *(per million train miles)*	**2.80**	2.17

(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 March 31			
	2019	2018	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) [1]
Revenues *($ millions)* [2]				
Petroleum and chemicals	**735**	564	30%	25%
Metals and minerals	**421**	388	9%	4%
Forest products	**456**	422	8%	4%
Coal	**163**	142	15%	11%
Grain and fertilizers	**577**	539	7%	5%
Intermodal	**850**	814	4%	2%
Automotive	**211**	197	7%	3%
Total rail freight revenues	**3,413**	3,066	11%	8%
Other revenues	**131**	128	2%	(1%)
Total revenues	**3,544**	3,194	11%	8%
Revenue ton miles (RTMs) *(millions)* [3]				
Petroleum and chemicals	**12,749**	10,619	20%	20%
Metals and minerals	**6,570**	6,938	(5%)	(5%)
Forest products	**6,818**	6,961	(2%)	(2%)
Coal	**4,294**	3,708	16%	16%
Grain and fertilizers	**13,867**	13,605	2%	2%
Intermodal	**13,848**	14,368	(4%)	(4%)
Automotive	**921**	986	(7%)	(7%)
Total RTMs	**59,067**	57,185	3%	3%
Rail freight revenue / RTM *(cents)* [2] [3]				
Petroleum and chemicals	**5.77**	5.31	9%	5%
Metals and minerals	**6.41**	5.59	15%	10%
Forest products	**6.69**	6.06	10%	6%
Coal	**3.80**	3.83	(1%)	(4%)
Grain and fertilizers	**4.16**	3.96	5%	3%
Intermodal	**6.14**	5.67	8%	6%
Automotive	**22.91**	19.98	15%	10%
Total rail freight revenue / RTM	**5.78**	5.36	8%	4%
Carloads *(thousands)* [3]				
Petroleum and chemicals	**168**	153	10%	10%
Metals and minerals	**235**	242	(3%)	(3%)
Forest products	**96**	100	(4%)	(4%)
Coal	**80**	80	—%	—%
Grain and fertilizers	**149**	145	3%	3%
Intermodal	**624**	624	—%	—%
Automotive	**66**	64	3%	3%
Total carloads	**1,418**	1,408	1%	1%
Rail freight revenue / carload *($)* [2] [3]				
Petroleum and chemicals	**4,375**	3,686	19%	14%
Metals and minerals	**1,791**	1,603	12%	7%
Forest products	**4,750**	4,220	13%	8%
Coal	**2,038**	1,775	15%	11%
Grain and fertilizers	**3,872**	3,717	4%	2%
Intermodal	**1,362**	1,304	4%	3%
Automotive	**3,197**	3,078	4%	—%
Total rail freight revenue / carload	**2,407**	2,178	11%	7%

(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 months ended March 31, 2019, the Company's adjusted net income was $848 million, or $1.17 per diluted share, which excludes a depreciation and amortization expense of $84 million, or $62 million after-tax ($0.09 per diluted share), related to costs previously capitalized for a Positive Train Control (PTC) back office system, following the deployment of a replacement system.

For the three months ended March 31, 2018, the Company's reported and adjusted net income was $741 million, or $1.00 per diluted share.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended March 31	
In millions, except per share data	**2019**	2018
Net income	**$ 786**	$ 741
Adjustments:		
Depreciation and amortization	**84**	—
Income tax expense (1)	**(22)**	—
Adjusted net income	**$ 848**	$ 741
Basic earnings per share	**$ 1.08**	$ 1.00
Impact of adjustments, per share	**0.09**	—
Adjusted basic earnings per share	**$ 1.17**	$ 1.00
Diluted earnings per share	**$ 1.08**	$ 1.00
Impact of adjustments, per share	**0.09**	—
Adjusted diluted earnings per share	**$ 1.17**	$ 1.00

(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 months ended March 31, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended March 31	
In millions, except percentage	**2019**	2018
Operating income	**$ 1,080**	$ 1,030
Adjustment: Depreciation and amortization	**84**	—
Adjusted operating income	**$ 1,164**	$ 1,030
Operating ratio [1]	**69.5%**	67.8%
Impact of adjustment	**(2.3)-pts**	—
Adjusted operating ratio	**67.2%**	67.8%

(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 $1.33 and $1.26 per US$1.00 for the three months ended March 31, 2019 and 2018, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2019 would have been lower by $30 million ($0.04 per diluted share).

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 to free cash flow for the three months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions	**2019**	2018
Net cash provided by operating activities	**$ 997**	$ 755
Net cash used in investing activities	**(878)**	(433)
Net cash provided before financing activities	**119**	322
Adjustment: Acquisition, net of cash acquired [1]	**167**	—
Free cash flow	**$ 286**	$ 322

(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 details on this acquisition.

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 March 31,*	**2019**	2018
Debt	**$ 13,433**	$ 11,912
Adjustments:		
Operating lease liabilities, including current portion (1)	**567**	473
Pension plans in deficiency	**475**	456
Adjusted debt	**$ 14,475**	$ 12,841
Net income	**$ 4,373**	$ 5,341
Interest expense	**498**	481
Income tax expense (recovery)	**1,349**	(444)
Depreciation and amortization	**1,446**	1,281
EBITDA	**7,666**	6,659
Adjustments:		
Other income	**(372)**	(16)
Other components of net periodic benefit income	**(305)**	(313)
Operating lease cost (1)	**208**	193
Adjusted EBITDA	**$ 7,197**	$ 6,523
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**2.01**	1.97

(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 March 31 2019	2018
Revenues *(Note 4)*	**$ 3,544**	$ 3,194
Operating expenses		
Labor and fringe benefits	**798**	714
Purchased services and material	**558**	481
Fuel	**398**	393
Depreciation and amortization *(Note 5)*	**440**	323
Equipment rents	**114**	113
Casualty and other	**156**	140
Total operating expenses	**2,464**	2,164
Operating income	**1,080**	1,030
Interest expense	**(131)**	(122)
Other components of net periodic benefit income *(Note 6)*	**80**	77
Other income	**2**	6
Income before income taxes	**1,031**	991
Income tax expense	**(245)**	(250)
Net income	**$ 786**	$ 741
Earnings per share *(Note 7)*		
Basic	**$ 1.08**	$ 1.00
Diluted	**$ 1.08**	$ 1.00
Weighted-average number of shares *(Note 7)*		
Basic	**725.2**	741.2
Diluted	**727.7**	744.2
Dividends declared per share	**$ 0.5375**	$ 0.4550

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

In millions	Three months ended March 31 2019	2018
Net income	**$ 786**	$ 741
Other comprehensive income (loss) *(Note 11)*		
Net gain (loss) on foreign currency translation	**(106)**	107
Net change in pension and other postretirement benefit plans *(Note 6)*	**40**	50
Other comprehensive income (loss) before income taxes	**(66)**	157
Income tax recovery (expense)	**(35)**	12
Other comprehensive income (loss)	**(101)**	169
Comprehensive income	**$ 685**	$ 910

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

In millions		March 31 2019		December 31 2018
Assets				
Current assets				
Cash and cash equivalents	$	**339**	$	266
Restricted cash and cash equivalents *(Note 8)*		**480**		493
Accounts receivable		**1,249**		1,169
Material and supplies		**656**		557
Other current assets		**304**		243
Total current assets		**3,028**		2,728
Properties		**38,044**		37,773
Operating lease right-of-use assets *(Note 9)*		**583**		—
Pension asset		**601**		446
Intangible assets, goodwill and other *(Note 3)*		**353**		267
Total assets	$	**42,609**	$	41,214
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and other	$	**2,275**	$	2,316
Current portion of long-term debt		**1,741**		1,184
Total current liabilities		**4,016**		3,500
Deferred income taxes		**7,569**		7,480
Other liabilities and deferred credits		**678**		501
Pension and other postretirement benefits		**701**		707
Long-term debt		**11,692**		11,385
Operating lease liabilities *(Note 9)*		**425**		—
Shareholders' equity				
Common shares		**3,653**		3,634
Common shares in Share Trusts *(Note 8)*		**(139)**		(175)
Additional paid-in capital		**382**		408
Accumulated other comprehensive loss *(Note 11)*		**(2,950)**		(2,849)
Retained earnings		**16,582**		16,623
Total shareholders' equity		**17,528**		17,641
Total liabilities and shareholders' equity	$	**42,609**	$	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	Number of common shares: 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							786	786
Stock options exercised	0.6		38		(6)			32
Settlement of equity settled awards	0.5	(0.5)	—	45	(45)		(53)	(53)
Stock-based compensation expense and other					25		(1)	24
Repurchase of common shares *(Note 8)*	(3.9)		(19)				(413)	(432)
Share purchases by Share Trusts	(0.1)	0.1		(9)				(9)
Other comprehensive loss *(Note 11)*						(101)		(101)
Dividends							(389)	(389)
Cumulative-effect adjustment from the adoption of ASU 2016-02 [(1)]							29	29
Balance at March 31, 2019	**722.4**	**1.6**	**$ 3,653**	**$ (139)**	**$ 382**	**$ (2,950)**	**$ 16,582**	**$ 17,528**

In millions	Number of common shares: Outstanding	Number of common shares: 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							741	741
Stock options exercised	0.2		9		(1)			8
Settlement of equity settled awards [(2)]	0.4	(0.4)	—	31	(42)		(23)	(34)
Stock-based compensation expense and other					15		—	15
Repurchase of common shares *(Note 8)*	(6.5)		(33)				(598)	(631)
Other comprehensive income *(Note 11)*						169		169
Dividends							(336)	(336)
Balance at March 31, 2018	736.7	1.6	$ 3,589	$ (137)	$ 406	$ (2,615)	$ 15,345	$ 16,588

(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.

(2) 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. For the three months ended March 31, 2018, the impact of this reclassification increased Additional paid-in capital by $257 million, decreased Common shares by $209 million, and decreased Retained earnings by $48 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 March 31 2019	2018
Operating activities		
Net income	**$ 786**	$ 741
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**440**	323
Pension income and funding [(1)]	**(115)**	(68)
Deferred income taxes	**100**	115
Changes in operating assets and liabilities:		
Accounts receivable	**(28)**	(34)
Material and supplies	**(110)**	(96)
Accounts payable and other	**(387)**	(201)
Other current assets	**6**	(25)
Other operating activities, net [(1)]	**305**	—
Net cash provided by operating activities	**997**	755
Investing activities		
Property additions	**(703)**	(425)
Acquisition, net of cash acquired *(Note 3)*	**(167)**	—
Other investing activities, net	**(8)**	(8)
Net cash used in investing activities	**(878)**	(433)
Financing activities		
Issuance of debt *(Note 8)*	**790**	1,286
Repayment of debt	**(5)**	(431)
Change in commercial paper, net *(Note 8)*	**(14)**	(25)
Settlement of foreign exchange forward contracts on debt	**8**	(12)
Issuance of common shares for stock options exercised	**32**	8
Withholding taxes remitted on the net settlement of equity settled awards *(Note 10)*	**(52)**	(34)
Repurchase of common shares *(Note 8)*	**(419)**	(615)
Purchase of common shares for settlement of equity settled awards	**(1)**	—
Purchase of common shares by Share Trusts	**(9)**	—
Dividends paid	**(389)**	(336)
Net cash used in financing activities	**(59)**	(159)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	**—**	9
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	**60**	172
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**759**	553
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 819**	$ 725
Cash and cash equivalents, end of period	**$ 339**	$ 242
Restricted cash and cash equivalents, end of period	**480**	483
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 819**	$ 725
Supplemental cash flow information		
Interest paid	**$ (151)**	$ (140)
Income taxes paid	**$ (242)**	$ (275)

(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 quarter 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 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 March 31, 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. The fair value measure is based on Level 3 inputs not observable in the market. As of March 31, 2019, the maximum amount of contingent consideration that could be paid was $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 March 31	
In millions	**2019**	2018
Rail freight revenues		
Petroleum and chemicals	**$ 735**	$ 564
Metals and minerals	**421**	388
Forest products	**456**	422
Coal	**163**	142
Grain and fertilizers	**577**	539
Intermodal	**850**	814
Automotive	**211**	197
Total rail freight revenues	**$ 3,413**	$ 3,066
Other revenues	**131**	128
Total revenues (1)	**$ 3,544**	$ 3,194
Revenues by geographic area		
Canada	**$ 2,386**	$ 2,159
United States (U.S.)	**1,158**	1,035
Total revenues (1)	**$ 3,544**	$ 3,194

(1) As at March 31, 2019, the Company had remaining performance obligations related to freight in-transit, for which revenues of $93 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 months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions	**2019**	2018
Beginning balance	**$ 3**	$ 3
Revenue recognized included in the beginning balance	**(2)**	(1)
Increase due to consideration received, net of revenue recognized	**240**	2
Ending balance	**$ 241**	$ 4
Current portion - End of period	**$ 31**	$ 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 months ended March 31, 2019 and 2018:

	Three months ended March 31			
	Pensions		Other postretirement benefits	
In millions	**2019**	2018	**2019**	2018
Current service cost	**$ 40**	$ 41	**$ 1**	$ 1
Other components of net periodic benefit cost (income)				
Interest cost	**149**	142	**2**	2
Expected return on plan assets	**(271)**	(271)	**—**	—
Amortization of prior service cost	**1**	1	**—**	—
Amortization of net actuarial loss (gain)	**40**	50	**(1)**	(1)
Total Other components of net periodic benefit cost (income)	**(81)**	(78)	**1**	1
Net periodic benefit cost (income)	**$ (41)**	$ (37)	**$ 2**	$ 2

Pension contributions

Pension contributions for the three months ended March 31, 2019 and 2018 of $80 million and $36 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 expects to make total cash contributions of approximately $140 million for all of the Company's pension plans.

7 – Earnings per share

	Three months ended March 31	
In millions, except per share data	**2019**	2018
Net income	**$ 786**	$ 741
Weighted-average basic shares outstanding	**725.2**	741.2
Dilutive effect of stock-based compensation	**2.5**	3.0
Weighted-average diluted shares outstanding	**727.7**	744.2
Basic earnings per share	**$ 1.08**	$ 1.00
Diluted earnings per share	**$ 1.08**	$ 1.00
Units excluded from the calculation as their inclusion would not have a dilutive effect		
Stock options	**1.1**	1.2
Performance share units	**0.3**	0.6

8 – 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, extending the term of the credit facility by one year and, effective May 5, 2019, the credit facility will increase from $1.8 billion to $2.0 billion. The amended credit facility of $2.0 billion will consist 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 will have 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 March 31, 2019 and December 31, 2018, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the three months ended March 31, 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, enabling it to issue commercial paper up to a maximum aggregate principal amount of $1.8 billion, or the US dollar equivalent on a combined basis.

As at March 31, 2019 and December 31, 2018, the Company had total commercial paper borrowings of US$853 million ($1,139 million) and US$862 million ($1,175 million), respectively, at a weighted-average interest rate of 2.63% and 2.47%, respectively, 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 months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions	**2019**	2018
Commercial paper with maturities less than 90 days		
Issuance of commercial paper	**$ 1,009**	$ 2,091
Repayment of commercial paper	**(1,264)**	(2,218)
Change in commercial paper with maturities less than 90 days, net	**(255)**	(127)
Commercial paper with maturities of 90 days or greater		
Issuance of commercial paper	**529**	102
Repayment of commercial paper	**(288)**	—
Change in commercial paper with maturities of 90 days or greater, net	**241**	102
Change in commercial paper, net	**$ (14)**	$ (25)

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 March 31, 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 March 31, 2019, the Company had outstanding letters of credit of $395 million ($410 million as at December 31, 2018) under the committed facilities from a total available amount of $432 million ($447 million as at December 31, 2018) and $138 million ($137 million as at December 31, 2018) under the uncommitted facilities.

As at March 31, 2019, included in Restricted cash and cash equivalents was $395 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 March 31, 2019, the Company had repurchased 2.4 million common shares for $279 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 months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions, except per share data	**2019**	2018
Number of common shares repurchased	**3.9**	6.5
Weighted-average price per share	**$ 111.28**	$ 97.48
Amount of repurchase [(1)]	**$ 432**	$ 631

(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 10 – 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.

9 – 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 months ended March 31, 2019:

In millions		Three months ended March 31 2019
Finance lease cost		
Amortization of right-of-use assets	$	2
Interest on lease liabilities		2
Total finance lease cost		4
Operating lease cost		40
Short-term lease cost		11
Variable lease cost (1)		16
Total lease cost (2)	$	71

(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 Sheets as at March 31, 2019:

In millions	**Classification**		March 31 2019
Lease right-of-use assets			
Finance leases	Properties	$	731
Operating leases	Operating lease right-of-use assets		583
Total lease right-of-use assets		$	1,314
Lease liabilities			
Current			
Finance leases	Current portion of long-term debt	$	171
Operating leases	Accounts payable and other		142
Noncurrent			
Finance leases	Long-term debt		126
Operating leases	Operating lease liabilities		425
Total lease liabilities		$	864

The following table provides the remaining lease terms and discount rates for the Company's leases as at March 31, 2019:

	March 31 2019
Weighted-average remaining lease term *(years)*	
Finance leases	1.8
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 months ended March 31, 2019:

In millions		Three months ended March 31 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	**$**	**41**
Operating cash outflows from finance leases	**$**	**2**
Financing cash outflows from finance leases	**$**	**5**
Right-of-use assets obtained in exchange for new finance lease liabilities	**$**	**—**
Right-of-use assets obtained in exchange for new operating lease liabilities	**$**	**16**

The following table provides the maturities of lease liabilities for the next five years and thereafter as at March 31, 2019:

In millions		Finance leases		Operating leases (1)		Total
2019	$	168	$	124	$	292
2020		63		126		189
2021		69		97		166
2022		7		63		70
2023		—		44		44
2024 and thereafter		4		184		188
Total lease payments	$	311	$	638	$	949
Less: Imputed interest		14		71		
Present value of lease liabilities	$	297	$	567		

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

10 – 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.

In millions		Three months ended March 31 2019		2018
Share Units Plan (1)	**$**	**13**	$	5
Voluntary Incentive Deferral Plan (VIDP) (2)		**3**		(2)
Stock option awards		**3**		3
Employee share investment plan (ESIP)		**1**		9
Total stock-based compensation expense	**$**	**20**	$	15
Income tax impacts of stock-based compensation				
Tax benefit recognized in income	**$**	**5**	$	3
Excess tax benefit recognized in income	**$**	**20**	$	8

(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	0.3	$	69.62	0.1	$	127.41
Settled [3]	(0.4)	$	35.11	(0.2)	$	95.31
Forfeited	—	$	54.66	—	$	108.33
Outstanding at March 31, 2019	**1.0**	**$**	**57.93**	**0.3**	**$**	**111.80**

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2019 of $24 million is calculated using a lattice-based valuation model. As at March 31, 2019, total unrecognized compensation cost related to all outstanding awards was $36 million and is expected to be recognized over a weighted-average period of 1.9 years.

(2) The grant date fair value of equity settled PSUs-TSR granted in 2019 of $14 million is calculated using a Monte Carlo simulation model. As at March 31, 2019, total unrecognized compensation cost related to all outstanding awards was $18 million and is expected to be recognized over a weighted-average period of 2.0 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]	(0.1)	$	84.79	—
Outstanding at March 31, 2019 [4]	**0.8**	**$**	**81.21**	**0.2**

(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 March 31, 2019, the aggregate intrinsic value of all equity settled DSUs outstanding amounted to $95 million.

(2) The fair value of cash settled DSUs as at March 31, 2019 is based on the intrinsic value. As at March 31, 2019, the liability for all cash settled DSUs was $19 million ($19 million as at December 31, 2018). The closing stock price used to determine the liability was $119.63.

(3) For the three months ended March 31, 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 $2 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)]	0.8	$	109.66
Exercised	(0.6)	$	66.86
Forfeited	—	$	95.73
Outstanding at March 31, 2019 [(1) (2) (3)]	**4.4**	**$**	**85.99**
Exercisable at March 31, 2019 [(1) (3)]	**2.2**	**$**	**71.72**

(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 $13 million ($16.08 per option) is calculated using the Black-Scholes option-pricing model. As at March 31, 2019, total unrecognized compensation cost related to all outstanding awards was $19 million and is expected to be recognized over a weighted-average period of 2.2 years.

(3) The weighted-average term to expiration of options outstanding was 7.2 years and the weighted-average term to expiration of exercisable stock options was 5.6 years. As at March 31, 2019, the aggregate intrinsic value of in-the-money stock options outstanding amounted to $149 million and the aggregate intrinsic value of stock options exercisable amounted to $106 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, March 31, 2019	**0.1**

(1) The weighted average fair value of the shares contributed was $112.46.

11 – 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 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	(279)		(279)	—	(279)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations (2)	173		173	(24)	149
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		39	39 (3)	(11) (4)	28
Amortization of prior service cost		1	1 (3)	— (4)	1
Other comprehensive income (loss)	(106)	40	(66)	(35)	(101)
Balance at March 31, 2019	**$ (147)**	**$ (3,841)**	**$ (3,988)**	**$ 1,038**	**$ (2,950)**

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	297		297	—	297
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations (2)	(190)		(190)	26	(164)
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		49	49 (3)	(14) (4)	35
Amortization of prior service cost		1	1 (3)	— (4)	1
Other comprehensive income	107	50	157	12	169
Balance at March 31, 2018	$ (337)	$ (3,072)	$ (3,409)	$ 794	$ (2,615)

(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.

12 – Major commitments and contingencies

Purchase commitments

As at March 31, 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 $2,401 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 March 31, 2019, the Company had aggregate reserves for personal injury and other claims of $349 million, of which $100 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 March 31, 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 March 31, 2019, the Company had aggregate accruals for environmental costs of $69 million, of which $49 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 March 31, 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 March 31, 2019, the Company had outstanding letters of credit of $395 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 $160 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 March 31, 2019, the maximum potential liability under these guarantee instruments was $693 million ($707 million as at December 31, 2018), of which $656 million ($659 million as at December 31, 2018) related to other employee benefit liabilities and workers' compensation and $37 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 March 31, 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.

13 – 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 March 31, 2019, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,341 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 months ended March 31, 2019 and 2018, the Company recorded a loss of $44 million and a gain of $44 million, respectively, related to foreign exchange forward contracts. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recognized in Other income.

As at March 31, 2019, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $14 million and $2 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 March 31, 2019, the Company's debt, excluding finance leases, had a carrying amount of $13,136 million ($12,540 million as at December 31, 2018) and a fair value of $14,493 million ($13,287 million as at December 31, 2018).

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) dated April 29, 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 First quarter highlights

In the first quarter of 2019, despite extreme winter conditions across parts of its network, CN added $350 million in top-line growth with revenues up 11% and volumes up 3% in terms of revenue ton miles (RTMs) when compared to the same period in 2018, as the overall demand environment remained positive. During the quarter, the Company was able to overcome temporary periods of reduced network fluidity and velocity caused by periods of record low temperatures in certain key portions of its network, which limited the Company's ability to move volumes and resulted in increased costs. The Company's growth in the context of such challenges was supported by prior year capital investments in expanded infrastructure and initiatives to increase capacity, as well as additional qualified train crews, locomotives and equipment.

Financial highlights

- CN attained record first quarter revenues.
- Net income increased by $45 million, or 6%, to $786 million, and diluted earnings per share increased by 8% to $1.08, in the first quarter of 2019 when compared to the same period in 2018.
- Adjusted net income increased by $107 million, or 14%, to $848 million, and adjusted diluted earnings per share increased by 17% to $1.17, in the first quarter of 2019 when compared to the same period in 2018. (1)
- Operating income was $1,080 million in the first quarter of 2019, an increase of $50 million, or 5%, over the same quarter of 2018.
- Adjusted operating income was $1,164 million in the first quarter of 2019, an increase of $134 million, or 13%, over the same quarter of 2018. (1)
- Operating ratio was 69.5% in the first quarter of 2019, a 1.7-point increase from the first quarter of 2018.
- Adjusted operating ratio was 67.2% in the first quarter of 2019, a 0.6-point improvement from the first quarter of 2018. (1)
- Free cash flow was $286 million in the first quarter of 2019, a decrease of $36 million over the same period in 2018. (2)
- The Company repurchased 3.9 million common shares, returning $432 million to its shareholders, in the first 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 $389 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.

Acquisition

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. See 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, intermodal traffic, Canadian grain, and lumber and panels compared to 2018. The Company also continues to expect lower volumes of potash compared to 2018. The Company now expects volumes of U.S. grain to be higher and U.S. coal exports to be flat for 2019 compared to 2018.

Underpinning the 2019 business outlook, the Company assumes that North American industrial production will increase by approximately two 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 crops in both Canada and the U.S. will be in line with their respective three-year averages.

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 March 31 2019		2018	
Revenues	**$**	**3,544**	$	3,194
Operating income	**$**	**1,080**	$	1,030
Adjusted operating income [(1)]	**$**	**1,164**	$	1,030
Net income	**$**	**786**	$	741
Adjusted net income [(1)]	**$**	**848**	$	741
Basic earnings per share	**$**	**1.08**	$	1.00
Adjusted basic earnings per share [(1)]	**$**	**1.17**	$	1.00
Diluted earnings per share	**$**	**1.08**	$	1.00
Adjusted diluted earnings per share [(1)]	**$**	**1.17**	$	1.00
Dividends declared per share	**$**	**0.5375**	$	0.4550
Total assets	**$**	**42,609**	$	38,758
Total long-term liabilities	**$**	**21,065**	$	17,808
Operating ratio		**69.5%**		67.8%
Adjusted operating ratio [(1)]		**67.2%**		67.8%
Free cash flow [(2)]	**$**	**286**	$	322

(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

First quarter of 2019 compared to corresponding period in 2018

Net income for the first quarter of 2019 was $786 million, an increase of $45 million, or 6%, and diluted earnings per share increased by 8% to $1.08, when compared to the same period in 2018.

Operating income for the quarter ended March 31, 2019 increased by $50 million, or 5%, to $1,080 million when compared to the same period in 2018. The increase was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, higher volumes of petroleum crude and refined petroleum products; 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, increased labor costs mainly as a result of an increase in headcount, and increased operating expenses due to challenging winter conditions.

The operating ratio, defined as operating expenses as a percentage of revenues, was 69.5% in the first quarter of 2019, compared to 67.8% in the first quarter of 2018, a 1.7-point increase.

Revenues for the first quarter of 2019 were $3,544 million compared to $3,194 million for the same period in 2018, an increase of $350 million, or 11%. The increase was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, higher volumes of petroleum crude, refined petroleum products, coal and Canadian grain, and higher applicable fuel surcharge rates, partly offset by lower volumes of frac sand.

Operating expenses for the first quarter of 2019 were $2,464 million compared to $2,164 million for the same period in 2018. The increase of $300 million, or 14%, was mainly driven by higher depreciation and amortization expense related to costs previously capitalized for a PTC back office system, following the deployment of a replacement system, increased labor costs mainly as a result of an increase in headcount, higher costs due to more challenging winter conditions, and the negative translation impact of a weaker Canadian dollar.

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 months ended March 31, 2019, the Company's adjusted net income was $848 million, or $1.17 per diluted share, which excludes a depreciation and amortization expense of $84 million, or $62 million after-tax ($0.09 per diluted share), related to costs previously capitalized for a PTC back office system, following the deployment of a replacement system.

For the three months ended March 31, 2018, the Company's reported and adjusted net income was $741 million, or $1.00 per diluted share.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended March 31			
In millions, except per share data		**2019**		2018
Net income	**$**	**786**	$	741
Adjustments:				
Depreciation and amortization		**84**		—
Income tax expense (1)		**(22)**		—
Adjusted net income	**$**	**848**	$	741
Basic earnings per share	**$**	**1.08**	$	1.00
Impact of adjustments, per share		**0.09**		—
Adjusted basic earnings per share	**$**	**1.17**	$	1.00
Diluted earnings per share	**$**	**1.08**	$	1.00
Impact of adjustments, per share		**0.09**		—
Adjusted diluted earnings per share	**$**	**1.17**	$	1.00

(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 months ended March 31, 2019 and 2018, to the adjusted performance measures presented herein:

In millions, except percentage	Three months ended March 31 2019	2018
Operating income	$ **1,080**	$ 1,030
Adjustment: Depreciation and amortization	**84**	—
Adjusted operating income	$ **1,164**	$ 1,030
Operating ratio (1)	**69.5%**	67.8%
Impact of adjustment	**(2.3)-pts**	—
Adjusted operating ratio	**67.2%**	67.8%

(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 $1.33 and $1.26 per US$1.00 for the three months ended March 31, 2019 and 2018, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2019 would have been lower by $30 million ($0.04 per diluted share).

Revenues

In millions, unless otherwise indicated	Three months ended March 31 2019	2018	% Change	% Change at constant currency
Rail freight revenues	$ **3,413**	$ 3,066	11%	8%
Other revenues	**131**	128	2%	(1%)
Total revenues	$ **3,544**	$ 3,194	11%	8%
Rail freight revenues				
Petroleum and chemicals	$ **735**	$ 564	30%	25%
Metals and minerals	**421**	388	9%	4%
Forest products	**456**	422	8%	4%
Coal	**163**	142	15%	11%
Grain and fertilizers	**577**	539	7%	5%
Intermodal	**850**	814	4%	2%
Automotive	**211**	197	7%	3%
Total rail freight revenues	$ **3,413**	$ 3,066	11%	8%
Revenue ton miles (RTMs) *(millions)*	**59,067**	57,185	3%	3%
Rail freight revenue/RTM *(cents)*	**5.78**	5.36	8%	4%
Carloads *(thousands)*	**1,418**	1,408	1%	1%
Rail freight revenue/carload *($)*	**2,407**	2,178	11%	7%

Revenues for the first quarter of 2019 were $3,544 million compared to $3,194 million for the same period in 2018, an increase of $350 million, or 11%. The increase was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, higher volumes of petroleum crude, refined petroleum products, coal and Canadian grain, and higher applicable fuel surcharge rates, partly offset by lower volumes of frac sand.

Fuel surcharge revenues increased by $38 million in the first quarter of 2019 when compared to the same period in 2018, mainly as a result of higher applicable fuel surcharge rates.

RTMs, measuring the relative weight and distance of rail freight transported by the Company, increased by 3% in the first quarter of 2019 when compared to the same period in 2018. Rail freight revenue per RTM increased by 8% in the first quarter of 2019 when compared to the same period in 2018, mainly driven by the positive translation impact of a weaker Canadian dollar, freight rate increases and higher applicable fuel surcharge rates, partly offset by an increase in the average length of haul.

Petroleum and chemicals

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 735**	$ 564	30%	25%
RTMs *(millions)*	**12,749**	10,619	20%	20%
Revenue/RTM *(cents)*	**5.77**	5.31	9%	5%
Carloads *(thousands)*	**168**	153	10%	10%

Revenues for this commodity group increased by $171 million, or 30%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to higher volumes of petroleum crude and refined petroleum products, freight rate increases, the positive translation impact of a weaker Canadian dollar and higher applicable fuel surcharge rates.

Revenue per RTM increased by 9% in the first quarter of 2019 when compared to the same period in 2018, mainly due to freight rate increases, the positive translation impact of a weaker Canadian and higher applicable fuel surcharge rates, partly offset by an increase in the average length of haul.

Metals and minerals

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 421**	$ 388	9%	4%
RTMs *(millions)*	**6,570**	6,938	(5%)	(5%)
Revenue/RTM *(cents)*	**6.41**	5.59	15%	10%
Carloads *(thousands)*	**235**	242	(3%)	(3%)

Revenues for this commodity group increased by $33 million, or 9%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases; partly offset by lower volumes of frac sand.

Revenue per RTM increased by 15% in the first quarter of 2019 when compared to the same period 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 March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 456**	$ 422	8%	4%
RTMs *(millions)*	**6,818**	6,961	(2%)	(2%)
Revenue/RTM *(cents)*	**6.69**	6.06	10%	6%
Carloads *(thousands)*	**96**	100	(4%)	(4%)

Revenues for this commodity group increased by $34 million, or 8%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by lower volumes of lumber.

Revenue per RTM increased by 10% in the first quarter of 2019 when compared to the same period in 2018, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases.

Coal

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 163**	$ 142	15%	11%
RTMs *(millions)*	**4,294**	3,708	16%	16%
Revenue/RTM *(cents)*	**3.80**	3.83	(1%)	(4%)
Carloads *(thousands)*	**80**	80	—%	—%

Revenues for this commodity group increased by $21 million, or 15%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to higher metallurgical coal and petroleum coke exports via west coast ports, freight rate increases, and the positive translation impact of a weaker Canadian dollar.

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

Grain and fertilizers

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 577**	$ 539	7%	5%
RTMs *(millions)*	**13,867**	13,605	2%	2%
Revenue/RTM *(cents)*	**4.16**	3.96	5%	3%
Carloads *(thousands)*	**149**	145	3%	3%

Revenues for this commodity group increased by $38 million, or 7%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to higher export volumes of Canadian wheat and U.S. corn, the positive translation impact of a weaker Canadian dollar, and freight rate increases; partly offset by lower volumes of potash.

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

Intermodal

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 850**	$ 814	4%	2%
RTMs *(millions)*	**13,848**	14,368	(4%)	(4%)
Revenue/RTM *(cents)*	**6.14**	5.67	8%	6%
Carloads *(thousands)*	**624**	624	—%	—%

Revenues for this commodity group increased by $36 million, or 4%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by reduced domestic retail shipments as well as lower international container traffic via the ports of Halifax and Vancouver.

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

Automotive

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 211**	$ 197	7%	3%
RTMs *(millions)*	**921**	986	(7%)	(7%)
Revenue/RTM *(cents)*	**22.91**	19.98	15%	10%
Carloads *(thousands)*	**66**	64	3%	3%

Revenues for this commodity group increased by $14 million, or 7%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and increased volumes of domestic finished vehicles and vehicles parts; partly offset by lower volumes of finished vehicle imports.

Revenue per RTM increased by 15% in the first quarter of 2019 when compared to the same period in 2018, mainly due to a decrease in the average length of haul and the positive translation impact of weaker Canadian dollar.

Other revenues

	Three months ended March 31			
	2019	2018	% Change	% Change at constant currency
Revenues *(millions)*	**$ 131**	$ 128	2%	(1%)

Other revenues increased by $3 million, or 2%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to higher revenues from automotive logistics services.

Operating expenses

Operating expenses for the first quarter of 2019 were $2,464 million compared to $2,164 million in the same period of 2018. The increase of $300 million, or 14%, was mainly driven by higher depreciation and amortization expense related to costs previously capitalized for a PTC back office system, following the deployment of a replacement system, increased labor costs mainly as a result of an increase in headcount, higher costs due to more challenging winter conditions, and the negative translation impact of a weaker Canadian dollar.

	Three months ended March 31			
In millions	**2019**	2018	% Change	% Change at constant currency
Labor and fringe benefits	**$ 798**	$ 714	(12%)	(10%)
Purchased services and material	**558**	481	(16%)	(14%)
Fuel	**398**	393	(1%)	4%
Depreciation and amortization	**440**	323	(36%)	(33%)
Equipment rents	**114**	113	(1%)	3%
Casualty and other	**156**	140	(11%)	(8%)
Total operating expenses	**$ 2,464**	$ 2,164	(14%)	(11%)

Labor and fringe benefits
Labor and fringe benefits expense increased by $84 million, or 12%, in the first quarter of 2019 when compared to the same period in 2018. The increase was primarily driven by higher headcount, general wage increases and the negative translation impact of a weaker Canadian dollar.

Purchased services and material
Purchased services and material expense increased by $77 million, or 16%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to higher repairs, maintenance and materials costs and higher costs of services purchased from outside contractors, resulting from more challenging winter conditions and higher volumes, as well as the negative translation impact of a weaker Canadian dollar.

Fuel
Fuel expense increased by $5 million, or 1%, in the first quarter of 2019 when compared to the same period in 2018. The increase was mainly due to the negative translation impact of the weaker Canadian dollar and increased volumes of traffic, partly offset by lower fuel prices.

Depreciation and amortization
Depreciation and amortization expense increased by $117 million, or 36%, in the first quarter of 2019 when compared to the same period in 2018. The increase 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 increased by $1 million, or 1%, in the first quarter of 2019 when compared to the same period in 2018.

Casualty and other
Casualty and other expense increased by $16 million, or 11%, in the first quarter of 2019 when compared to the same period in 2018. The increase was 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 $131 million for the three months ended March 31, 2019 compared to $122 million for the same period in 2018. The increase was 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 $80 million for the three months ended March 31, 2019 compared to $77 million for the same period in 2018.

Other income

Other income was $2 million for the three months ended March 31, 2019 compared to $6 million for the same period in 2018.

Income tax expense

Income tax expense was $245 million for the three months ended March 31, 2019 compared to $250 million for the same period in 2018.

The effective tax rate for the three months ended March 31, 2019 was 23.8% compared to 25.2% for the same period in 2018. The decrease in the effective tax rate was mainly attributable to the impact of a higher excess tax benefit resulting from the settlement of equity settled awards in 2019.

Summary of quarterly financial data

	2019	2018				2017		
	Quarter	Quarters				Quarters		
In millions, except per share data	**First**	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	**$ 3,544**	$ 3,808	$ 3,688	$ 3,631	$ 3,194	$ 3,285	$ 3,221	$ 3,329
Operating income	**$ 1,080**	$ 1,452	$ 1,492	$ 1,519	$ 1,030	$ 1,225	$ 1,379	$ 1,415
Net income (1)	**$ 786**	$ 1,143	$ 1,134	$ 1,310	$ 741	$ 2,611	$ 958	$ 1,031
Basic earnings per share	**$ 1.08**	$ 1.57	$ 1.55	$ 1.78	$ 1.00	$ 3.50	$ 1.28	$ 1.36
Diluted earnings per share	**$ 1.08**	$ 1.56	$ 1.54	$ 1.77	$ 1.00	$ 3.48	$ 1.27	$ 1.36
Dividends per share	**$ 0.5375**	$ 0.4550	$ 0.4550	$ 0.4550	$ 0.4550	$ 0.4125	$ 0.4125	$ 0.4125

(1) Net income may include items that management believes do not necessarily arise as part of CN's normal day-to-day operations and could 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 quarter of 2019, except as noted below.

As at March 31, 2019 and December 31, 2018, the Company had Cash and cash equivalents of $339 million and $266 million, respectively; Restricted cash and cash equivalents of $480 million and $493 million, respectively; and a working capital deficit of $988 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, extending the term of the credit facility by one year and, effective May 5, 2019, the credit facility will increase from $1.8 billion to $2.0 billion. The increase in capacity provides the Company with additional financial flexibility. The amended credit facility of $2.0 billion will consist 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 March 31, 2019 and December 31, 2018, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the three months ended March 31, 2019.

Commercial paper

There were no changes to the Company's commercial paper programs in the first quarter of 2019. As at March 31, 2019 and December 31, 2018, the Company had total commercial paper borrowings of US$853 million ($1,139 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 March 31, 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 March 31, 2019, the Company had outstanding letters of credit of $395 million ($410 million as at December 31, 2018) under the committed facilities from a total available amount of $432 million ($447 million as at December 31, 2018) and $138 million ($137 million as at December 31, 2018) under the uncommitted facilities. As at March 31, 2019, included in Restricted cash and cash equivalents was $395 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 8 – 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 March 31		
In millions	**2019**	2018	Variance
Net cash provided by operating activities	$ **997**	$ 755	$ 242
Net cash used in investing activities	**(878)**	(433)	(445)
Net cash used in financing activities	**(59)**	(159)	100
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash, and restricted cash equivalents	**—**	9	(9)
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	**60**	172	(112)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**759**	553	206
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	$ **819**	$ 725	$ 94

Operating activities

Net cash provided by operating activities increased by $242 million in the first quarter of 2019 when compared to the same period in 2018, mainly due to advance consideration received related to a long-term rail freight contract and higher cash earnings, 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, 2017 indicated a funding excess on a going concern basis of approximately $3.1 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. The Company's next actuarial valuations for funding purposes for its Canadian registered pension plans required as at December 31, 2018 will be performed in 2019. These actuarial valuations are expected to identify a funding excess on a going concern basis of approximately $3.3 billion, while on a solvency basis a funding excess of approximately $0.5 billion is expected.

Pension contributions for the three months ended March 31, 2019 and 2018 of $80 million and $36 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 expects to make total cash contributions of approximately $140 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 three months ended March 31, 2019 and 2018 were $242 million and $275 million, respectively. The decrease was mainly due to a lower final payment made in 2019 in Canada for the prior year. For 2019, the Company's net income tax payments are expected to be approximately $1 billion.

Investing activities

Net cash used in investing activities increased by $445 million in the first quarter of 2019 when compared to the same period in 2018, mainly as a result of higher property additions, primarily locomotives, and the acquisition of TransX.

Property additions

	Three months ended March 31	
In millions	**2019**	2018
Track and roadway	**$ 283**	$ 294
Rolling stock	**458**	14
Buildings	**8**	9
Information technology	**80**	82
Other	**89**	26
Gross property additions	**918**	425
Less: Finance leases	**215**	—
Property additions (1)	**703**	425

(1) Includes $63 million associated with the U.S. federal government legislative PTC implementation in the three months ended March 31, 2019 ($114 million in the three months ended March 31, 2018).

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 $100 million in the first quarter of 2019 when compared to the same period in 2018, primarily driven by lower repurchases of common shares, partly offset by lower net issuances of long-term debt and higher dividends paid.

Debt financing activities

Debt financing activities in the first quarter 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 repayment of commercial paper of $14 million.

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

- 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;
- Proceeds from the accounts receivable securitization program of $180 million;
- Repayment of accounts receivable securitization borrowings of $420 million;
- Net repayment of commercial paper of $25 million; and
- Repayment of finance leases of $11 million.

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 March 31, 2019, the Company had repurchased 2.4 million common shares for $279 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 months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions, except per share data	**2019**	2018
Number of common shares repurchased	**3.9**	6.5
Weighted-average price per share	**$ 111.28**	$ 97.48
Amount of repurchase (1)	**$ 432**	$ 631

(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 $389 million in the first quarter of 2019, compared to $336 million, at the quarterly rate of $0.4550 per share for the same period 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 March 31, 2019:

In millions	**Total**	2019	2020	2021	2022	2023	2024 & thereafter
Debt obligations (1)	**$ 13,136**	$ 1,170	$ 390	$ 775	$ 326	$ 192	$ 10,283
Interest on debt obligations	**10,012**	345	509	501	482	467	7,708
Finance lease obligations (2)	**311**	168	63	69	7	—	4
Operating lease obligations (3)	**638**	124	126	97	63	44	184
Purchase obligations (4)	**2,401**	1,397	496	187	130	92	99
Other long-term liabilities (5)	**735**	56	70	53	46	40	470
Total contractual obligations	**$ 27,233**	**$ 3,260**	**$ 1,654**	**$ 1,682**	**$ 1,054**	**$ 835**	**$ 18,748**

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

(2) *Includes $14 million of imputed interest.*

(3) *Includes $70 million related to renewal options reasonably certain to be exercised and $71 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 to free cash flow for the three months ended March 31, 2019 and 2018:

	Three months ended March 31	
In millions	**2019**	2018
Net cash provided by operating activities	**$ 997**	$ 755
Net cash used in investing activities	**(878)**	(433)
Net cash provided before financing activities	**119**	322
Adjustment: Acquisition, net of cash acquired (1)	**167**	—
Free cash flow	**$ 286**	$ 322

(1) Relates to the acquisition of TransX. See the section entitled Liquidity and capital resources - Investing activities for additional details on this acquisition.

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 March 31,*	**2019**	2018
Debt	**$ 13,433**	$ 11,912
Adjustments:		
Operating lease liabilities, including current portion (1)	**567**	473
Pension plans in deficiency	**475**	456
Adjusted debt	**$ 14,475**	$ 12,841
Net income	**$ 4,373**	$ 5,341
Interest expense	**498**	481
Income tax expense (recovery)	**1,349**	(444)
Depreciation and amortization	**1,446**	1,281
EBITDA	**7,666**	6,659
Adjustments:		
Other income	**(372)**	(16)
Other components of net periodic benefit income	**(305)**	(313)
Operating lease cost (1)	**208**	193
Adjusted EBITDA	**$ 7,197**	$ 6,523
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**2.01**	1.97

(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 March 31, 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 12 – Major commitments and contingencies* to the Company's unaudited Interim Consolidated Financial Statements.

Outstanding share data

As at April 29, 2019, the Company had 721.4 million common shares and 4.2 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 March 31, 2019, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,341 million (US $1,465 million as at December 31, 2018). For the three months ended March 31, 2019 and 2018, the Company recorded a loss of $44 million and a gain of $44 million, respectively, related to foreign exchange forward contracts. 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 March 31, 2019, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $14 million and $2 million, respectively ($67 million and $nil, respectively, as at December 31, 2018).

Fair value of financial instruments

As at March 31, 2019, the Company's debt, excluding finance leases, had a carrying amount of $13,136 million ($12,540 million as at December 31, 2018) and a fair value of $14,493 million ($13,287 million as at December 31, 2018).

Additional information relating to financial instruments is provided in *Note 13 – Financial instruments* to the Company's unaudited Interim Consolidated Financial Statements.

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 quarter 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 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 March 31, 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 quarter 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 labor negotiations and regulatory matters.

Labor negotiations

As at March 31, 2019, CN employed a total of 19,327 employees in Canada, of which 13,819, or 72%, were unionized employees, and 7,792 employees in the U.S., of which 6,462, 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 13, 2019, the Minister of Labour appointed two conciliation officers to assist CN and the Teamsters Canada Rail Conference (TCRC) with their negotiations to renew the collective agreement covering rail traffic controllers.

On March 22, 2019, CN received notice to commence collective bargaining with the TCRC to renew the collective agreements covering conductors and yard service employees. These agreements will expire on July 22, 2019.

On March 31, 2019, tentative agreements were reached with Unifor to renew the collective agreements with four bargaining units covering clerical and intermodal employees, owner-operator truck drivers, and other classifications, which expired March 31, 2019. Ratification of these agreements is expected by May 15, 2019.

U.S. workforce

Collective agreements covering operating 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) continue to be bargained on a local (corporate) basis. CN has ratified agreements with 16 of 18 bargaining units covering approximately 50% of CN’s operating craft employees. The collective agreements for the remaining two bargaining units, covering approximately 50% of the operating craft employees or approximately 25% of CN’s total unionized employee workforce, are currently under renegotiation. 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

Safety regulation - U.S.

On February 28, 2019, in coordination with the Federal Railroad Administration, 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 this 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.

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 March 31, 2019, have concluded that the Company's disclosure controls and procedures were effective.

During the first quarter ended March 31, 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.