

## Consolidated Statements of Income – unaudited

<i>In millions, except per share data</i>	Three months ended March 31	
	2018	2017
<b>Revenues (Note 3)</b>	<b>\$ 3,194</b>	<b>\$ 3,206</b>
<b>Operating expenses</b>		
Labor and fringe benefits <sup>(1)</sup>	714	659
Purchased services and material	481	440
Fuel	393	342
Depreciation and amortization	323	323
Equipment rents	113	101
Casualty and other	140	117
<b>Total operating expenses <sup>(1)</sup></b>	<b>2,164</b>	<b>1,982</b>
<b>Operating income <sup>(1)</sup></b>	<b>1,030</b>	<b>1,224</b>
Interest expense	(122)	(122)
Other components of net periodic benefit income (Note 7) <sup>(1)</sup>	77	79
Other income	6	2
<b>Income before income taxes</b>	<b>991</b>	<b>1,183</b>
Income tax expense (Note 4)	(250)	(299)
<b>Net income</b>	<b>\$ 741</b>	<b>\$ 884</b>
<b>Earnings per share (Note 5)</b>		
Basic	\$ 1.00	\$ 1.16
Diluted	\$ 1.00	\$ 1.16
<b>Weighted-average number of shares (Note 5)</b>		
Basic	741.2	761.3
Diluted	744.2	764.5
<b>Dividends declared per share</b>	<b>\$ 0.4550</b>	<b>\$ 0.4125</b>

(1) The Company adopted Accounting Standards Update (ASU) 2017-07: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost in the first quarter of 2018 on a retrospective basis. Comparative figures have been adjusted to conform to the current presentation. See Note 2 – Recent accounting pronouncements for additional information.

See accompanying notes to unaudited consolidated financial statements.

## Consolidated Statements of Comprehensive Income – unaudited

<i>In millions</i>	Three months ended March 31	
	2018	2017
Net income	\$ 741	\$ 884
<b>Other comprehensive income (loss) (Note 9)</b>		
Net gain (loss) on foreign currency translation	107	(23)
Net change in pension and other postretirement benefit plans (Note 7)	50	46
<b>Other comprehensive income before income taxes</b>	<b>157</b>	<b>23</b>
Income tax recovery (expense)	12	(22)
<b>Other comprehensive income</b>	<b>169</b>	<b>1</b>
<b>Comprehensive income</b>	<b>\$ 910</b>	<b>\$ 885</b>

See accompanying notes to unaudited consolidated financial statements.

## Consolidated Balance Sheets – unaudited

<i>In millions</i>	March 31 2018	December 31 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 242	\$ 70
Restricted cash and cash equivalents (Note 6)	483	483
Accounts receivable	1,039	984
Material and supplies	521	424
Other current assets	396	229
<i>Total current assets</i>	2,681	2,190
Properties	34,695	34,189
Pension asset	1,112	994
Intangible and other assets	270	256
<b>Total assets</b>	<b>\$ 38,758</b>	<b>\$ 37,629</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and other	\$ 1,807	\$ 1,903
Current portion of long-term debt	2,555	2,080
<i>Total current liabilities</i>	4,362	3,983
Deferred income taxes	7,152	6,953
Other liabilities and deferred credits	598	590
Pension and other postretirement benefits	701	699
Long-term debt	9,357	8,748
<b>Shareholders' equity</b>		
Common shares	3,798	3,780
Common shares in Share Trusts (Note 6)	(137)	(168)
Additional paid-in capital	149	242
Accumulated other comprehensive loss (Note 9)	(2,615)	(2,784)
Retained earnings	15,393	15,586
<i>Total shareholders' equity</i>	16,588	16,656
<b>Total liabilities and shareholders' equity</b>	<b>\$ 38,758</b>	<b>\$ 37,629</b>

See accompanying notes to unaudited consolidated financial statements.

## Consolidated Statements of Changes in Shareholders' Equity – unaudited

<i>In millions</i>	Number of common shares		Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	
	Share Trusts	Common shares						
	Outstanding	Trusts	shares	Trusts	capital	loss	earnings	equity
<i>Balance at December 31, 2017</i>	742.6	2.0	\$ 3,780	\$ (168)	\$ 242	\$ (2,784)	\$ 15,586	\$ 16,656
Net income							741	741
Stock options exercised	0.2		9		(1)			8
Settlement of equity settled awards			42		(76)			(34)
Stock-based compensation expense and other					15		-	15
Repurchase of common shares (Note 6)	(6.5)		(33)				(598)	(631)
Share settlements by Share Trusts (Note 6)	0.4	(0.4)		31	(31)			-
Other comprehensive income (Note 9)						169		169
Dividends							(336)	(336)
<i>Balance at March 31, 2018</i>	<b>736.7</b>	<b>1.6</b>	<b>\$ 3,798</b>	<b>\$ (137)</b>	<b>\$ 149</b>	<b>\$ (2,615)</b>	<b>\$ 15,393</b>	<b>\$ 16,588</b>

<i>In millions</i>	Number of common shares		Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	
	Share Trusts	Common shares						
	Outstanding	Trusts	shares	Trusts	capital	loss	earnings	equity
<i>Balance at December 31, 2016</i>	762.0	1.8	\$ 3,730	\$ (137)	\$ 364	\$ (2,358)	\$ 13,242	\$ 14,841
Net income							884	884
Stock options exercised	0.3		15		(2)			13
Settlement of equity settled awards			77		(148)			(71)
Stock-based compensation expense and other					19		(1)	18
Repurchase of common shares (Note 6)	(5.4)		(27)				(464)	(491)
Share settlements by Share Trusts (Note 6)	0.3	(0.3)		24	(24)			-
Other comprehensive income (Note 9)						1		1
Dividends							(313)	(313)
<i>Balance at March 31, 2017</i>	<b>757.2</b>	<b>1.5</b>	<b>\$ 3,795</b>	<b>\$ (113)</b>	<b>\$ 209</b>	<b>\$ (2,357)</b>	<b>\$ 13,348</b>	<b>\$ 14,882</b>

See accompanying notes to unaudited consolidated financial statements.

## Consolidated Statements of Cash Flows – unaudited

<i>In millions</i>	Three months ended March 31	
	2018	2017
<b>Operating activities</b>		
Net income	\$ 741	\$ 884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	323	323
Deferred income taxes	115	145
Changes in operating assets and liabilities:		
Accounts receivable	(34)	(31)
Material and supplies	(96)	(50)
Accounts payable and other	(201)	139
Other current assets	(25)	(71)
Pensions and other, net	(68)	(83)
<b><i>Net cash provided by operating activities</i></b>	<b>755</b>	<b>1,256</b>
<b>Investing activities</b>		
Property additions	(425)	(396)
Other, net	(8)	(12)
<b><i>Net cash used in investing activities</i></b>	<b>(433)</b>	<b>(408)</b>
<b>Financing activities</b>		
Issuance of debt (Note 6)	1,286	-
Repayment of debt	(431)	(10)
Change in commercial paper, net (Note 6)	(25)	89
Settlement of foreign exchange forward contracts on long-term debt	(12)	(3)
Issuance of common shares for stock options exercised	8	13
Withholding taxes remitted on the net settlement of equity settled awards (Note 8)	(34)	(52)
Repurchase of common shares (Note 6)	(615)	(499)
Purchase of common shares for settlement of equity settled awards	-	(19)
Dividends paid	(336)	(313)
<b><i>Net cash used in financing activities</i></b>	<b>(159)</b>	<b>(794)</b>
Effect of foreign exchange fluctuations on US dollar-denominated cash, cash equivalents, restricted cash, and restricted cash equivalents	9	(2)
<b><i>Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents</i></b>	<b>172</b>	<b>52</b>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	553	672
<b><i>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</i></b>	<b>\$ 725</b>	<b>\$ 724</b>
Cash and cash equivalents, end of period	\$ 242	\$ 265
Restricted cash and cash equivalents, end of period	483	459
<b><i>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</i></b>	<b>\$ 725</b>	<b>\$ 724</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ (140)	\$ (134)
Income taxes paid	\$ (275)	\$ (164)

See accompanying notes to unaudited consolidated financial statements.

### 1 – Basis of presentation

In these notes, the “Company” or “CN” refers to Canadian National Railway Company and, as the context requires, 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 2017 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 2018:

Standard	Description	Impact
<b>ASU 2017-07 Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost</b>	<p>Requires employers that sponsor defined benefit pension plans and/or other postretirement benefit plans to report the service cost component in the same line item or items as other compensation costs. The other components of net periodic benefit cost are required to be presented in the statement of income separately from the service cost component and outside a subtotal of income from operations. The new guidance allows only the service cost component to be eligible for capitalization.</p> <p>The guidance must be applied retrospectively for the presentation of the service cost component and other components of net periodic benefit cost in the statement of income and prospectively for the capitalization of the service cost component of net periodic benefit cost.</p>	<p>The Company adopted this ASU with an effective date of January 1, 2018. As a result, the classification of the components of pension and postretirement benefit costs other than current service cost are now shown outside of Operating income in a separate caption entitled Other components of net periodic benefit income in the Company’s Consolidated Statements of Income.</p> <p>As a result of applying this ASU, for the three months ended March 31, 2018 and 2017, operating income was reduced by \$77 million and \$79 million, respectively, with a corresponding increase presented in the new caption below Operating income with no impact on Net income.</p> <p>The guidance allowing only the service cost component to be eligible for capitalization did not have a significant impact on the Company’s Consolidated Financial Statements.</p>
<b>ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</b>	<p>Provides guidance for the recognition, measurement, presentation and disclosure of financial instruments.</p> <p>Requires equity investments, except for those accounted for under the equity method or that result in consolidation, to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.</p> <p>The guidance must be applied prospectively by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.</p>	<p>The Company adopted this ASU on a prospective basis with an effective date of January 1, 2018. As a result of applying this ASU, the Company elected to measure all existing equity investments without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.</p> <p>The adoption of the ASU did not have a material impact on the Company’s Consolidated Financial Statements.</p>

## Notes to Unaudited Consolidated Financial Statements

Standard	Description	Impact
<b>ASU 2014-09, Revenue from Contracts with Customers and related amendments (Topic 606)</b>	<p>Requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.</p> <p>Additional disclosures are required to assist users of financial statements to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts.</p> <p>The guidance can be applied using either the retrospective or modified retrospective transition method.</p>	<p>The Company adopted the standard with an effective date of January 1, 2018 using the modified retrospective transition method applied to contracts that were not completed as of January 1, 2018. The adoption of the standard did not have an impact on the Company's Consolidated Financial Statements, other than for the new disclosure requirements.</p> <p>See <i>Note 3 – Revenues</i> for additional information.</p>

The following recent ASUs issued by FASB have an effective date after March 31, 2018 and have not been adopted by the Company:

Standard <sup>(1)</sup>	Description	Impact	Effective date <sup>(2)</sup>
<b>ASU 2018-02 Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</b>	<p>Provides entities the option to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act ("U.S. Tax Reform") from accumulated other comprehensive income to retained earnings.</p> <p>The guidance also requires certain disclosures about stranded tax effects and a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income.</p> <p>The guidance can either be applied prospectively from the beginning of the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Reform is recognized.</p>	<p>The Company is currently evaluating the new guidance and has not determined whether it will elect to reclassify stranded amounts, and which transition method to apply if the election is made. The adoption of the ASU is not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.</p>	December 15, 2018. Early adoption is permitted.
<b>ASU 2016-02, Leases (Topic 842)</b>	<p>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. The lessor accounting model under the new standard is substantially unchanged.</p> <p>The new standard also requires additional qualitative and quantitative disclosures.</p> <p>The guidance must be applied using the modified retrospective method.</p>	<p>The Company is evaluating the effects that the adoption of the standard will have on its Consolidated Financial Statements and related disclosures, systems, processes and internal controls.</p> <p>The Company is implementing a new lease management system and has identified and begun implementing changes to processes and internal controls necessary to meet the reporting and disclosure requirements.</p> <p>The Company is assessing contractual arrangements to determine if they qualify as leases under the new standard and has already reviewed a significant portion of its commitments under operating leases. The Company expects that the standard will have a significant impact on its Consolidated Balance Sheets due to the recognition of new right-of-use assets and lease liabilities for leases currently classified as operating leases with a term over twelve months.</p> <p>The Company will adopt the requirements of the ASU effective January 1, 2019.</p>	December 15, 2018. Early adoption is permitted.

(1) Other recently issued ASUs required to be applied for periods beginning on or after March 31, 2018 have been evaluated by the Company and will not have a significant impact on the Company's Consolidated Financial Statements.

(2) Effective for annual and interim reporting periods beginning after the stated date.

## 3 – Revenues

### Nature of services

The Company's revenues consist of rail freight revenues and other revenues. Rail freight revenues include revenue from the movement of freight over rail and are derived from the following seven commodity groups:

- Petroleum and chemicals, which includes chemicals and plastics, refined petroleum products, crude and condensate, and sulfur;
- Metals and minerals, which includes energy materials, metals, minerals, and iron ore;
- Forest products, which includes lumber, pulp, paper, and panels;
- Coal, which includes coal and petroleum coke;
- Grain and fertilizers, which includes Canadian regulated grain, Canadian commercial grain, U.S. grain, potash and other fertilizers;
- Intermodal, which includes rail and trucking services for domestic and international traffic; and
- Automotive, which includes finished vehicles and auto parts.

Rail freight revenues also comprise revenues for optional services beyond the basic movement of freight including asset use, switching, storage, and other services.

Other revenues are derived from non-rail logistics services that support the Company's rail business including vessels and docks, transloading and distribution, automotive logistics, freight forwarding and transportation management.

The following table provides disaggregated information for revenues:

<i>In millions</i>	<b>Three months ended March 31</b>	
	2018	2017
<b>Rail freight revenues</b>		
Petroleum and chemicals	\$ 564	\$ 584
Metals and minerals	388	361
Forest products	422	447
Coal	142	129
Grain and fertilizers	539	607
Intermodal	814	742
Automotive	197	205
<i>Total rail freight revenues</i>	<b>\$ 3,066</b>	<b>\$ 3,075</b>
Other revenues	128	131
<i>Total revenues</i> <sup>(1)</sup>	<b>\$ 3,194</b>	<b>\$ 3,206</b>
<b>Revenues by geographic area</b>		
Canada	\$ 2,159	\$ 2,187
U.S.	1,035	1,019
<i>Total revenues</i> <sup>(1)</sup>	<b>\$ 3,194</b>	<b>\$ 3,206</b>

(1) As at March 31, 2018, the Company had remaining performance obligations of \$83 million related to freight in-transit, for which revenue is expected to be recognized in the next period.

### Revenue recognition

Revenues are recognized when control of promised services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those services.

The Company accounts for contracts with customers when it has approval and commitment from both parties, each party's rights have been identified, payment terms are defined, the contract has commercial substance and collection is probable. For contracts that involve multiple performance obligations, the Company allocates the transaction price to each performance obligation in the contract based on relative standalone selling prices and recognizes revenue when, or as, performance obligations in the contract are satisfied.

Revenues are presented net of taxes collected from customers and remitted to governmental authorities.

### Rail freight revenues

Rail freight services are arranged through publicly-available tariffs or customer-specific agreements that establish the pricing, terms and conditions for rail freight services offered by the Company. For revenue recognition purposes, a contract for the movement of freight over rail exists when shipping instructions are sent by a customer and have been accepted by the Company in connection with the relevant tariff or customer-specific agreement.

## Notes to Unaudited Consolidated Financial Statements

Revenues for the movement of freight over rail are recognized over time due to the continuous transfer of control to the customer as freight moves from origin to destination. Progress towards completion of the performance obligation is measured based on the transit time of rail freight from origin to destination. The allocation of revenues between periods is based on the relative transit time in each period with expenses recorded as incurred. Rail freight movements are completed over a short period of time and are generally completed before payment is due. Revenues related to rail freight contracts that require the involvement of another rail carrier to move freight from origin to destination are reported on a net basis.

Revenues for optional services are recognized at a point in time or over time as performance obligations are satisfied, depending on the nature of the service.

Rail freight contracts may be subject to variable consideration in the form of volume-based incentives, rebates, or other items, which affect the transaction price. Variable consideration is recognized as revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration is accrued on the basis of management's best estimate of the expected amount, which is based on available historical, current and forecasted information.

### Other revenues

Other revenues are recognized at a point in time or over time as performance obligations are satisfied, depending on the nature of the service.

## 4 – Income taxes

The Company recorded income tax expense of \$250 million for the three months ended March 31, 2018 compared to \$299 million for the same period in 2017. Included in the 2017 figure was a deferred income tax recovery of \$5 million resulting from the enactment of a lower provincial corporate income tax rate.

## 5 – Earnings per share

<i>In millions, except per share data</i>	Three months ended March 31	
	2018	2017
Net income	\$ 741	\$ 884
Weighted-average basic shares outstanding	741.2	761.3
Dilutive effect of stock-based compensation	3.0	3.2
<b>Weighted-average diluted shares outstanding</b>	<b>744.2</b>	<b>764.5</b>
Basic earnings per share	\$ 1.00	\$ 1.16
Diluted earnings per share	\$ 1.00	\$ 1.16
<b>Units excluded from the calculation as their inclusion would not have a dilutive effect</b>		
Stock options	1.2	0.9
Performance share units	0.6	0.2

## 6 – Financing activities

### Shelf prospectus and registration statement

On February 6, 2018, under its previous shelf prospectus and registration statement, the Company issued 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 net proceeds of \$1,106 million.

On February 13, 2018, the Company filed a new shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), pursuant to which CN may issue up to \$6.0 billion of debt securities in the Canadian and U.S. capital markets over the 25 months from the filing date. This shelf prospectus and registration statement replaces CN's previous shelf prospectus and registration statement that expired on February 6, 2018. 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, 2018, the Company's revolving credit facility agreement was amended, which extended the term of the credit facility by one year and will increase the credit facility from \$1.3 billion to \$1.8 billion, effective May 5, 2018. The amended credit facility of \$1.8 billion will consist of a \$900 million tranche maturing on May 5, 2021 and a \$900 million tranche maturing on May 5, 2023. The accordion feature, which provides for an additional \$500 million, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders, remain 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 interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offered Rate (LIBOR), 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, 2018 and December 31, 2017, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the three months ended March 31, 2018.

### 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 \$1.3 billion, or the US dollar equivalent, on a combined basis, which will increase to \$1.8 billion effective May 5, 2018.

As at March 31, 2018 and December 31, 2017, the Company had total commercial paper borrowings of US\$740 million (\$953 million) and US\$760 million (\$955 million), respectively, at a weighted-average interest rate of 1.80% and 1.36%, 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, 2018 and 2017:

<i>In millions</i>	Three months ended March 31	
	2018	2017
<b>Commercial paper with maturities less than 90 days</b>		
Issuance of commercial paper	\$ 2,091	\$ 1,141
Repayment of commercial paper	(2,218)	(1,052)
<i>Net issuance (repayment) of commercial paper with maturities less than 90 days</i>	<i>(127)</i>	<i>89</i>
<b>Commercial paper with maturities of 90 days or greater</b>		
Issuance of commercial paper	102	-
<i>Change in commercial paper, net</i>	<i>\$ (25)</i>	<i>\$ 89</i>

### Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2019, 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, 2018, the Company had accounts receivable securitization borrowings of \$180 million at a weighted-average interest rate of 1.64% (\$421 million, consisting of \$320 million at a weighted-average interest rate of 1.43% and US\$80 million (\$101 million) at a weighted-average interest rate of 2.10% as at December 31, 2017) presented in Current portion of long-term debt on the Consolidated Balance Sheets. As at March 31, 2018, the borrowings were secured by and limited to \$201 million (\$476 million as at December 31, 2017) of accounts receivable.

### Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 15, 2018, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2021. 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, 2018, the Company had outstanding letters of credit of \$396 million (\$394 million as at December 31, 2017) under the committed facilities from a total available amount of \$440 million (\$437 million as at December 31, 2017) and \$137 million (\$136 million as at December 31, 2017) under the uncommitted facilities.

## Notes to Unaudited Consolidated Financial Statements

As at March 31, 2018, included in Restricted cash and cash equivalents was \$400 million (\$400 million as at December 31, 2017) and \$80 million (\$80 million as at December 31, 2017) 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 31.0 million common shares between October 30, 2017 and October 29, 2018. As at March 31, 2018, the Company had repurchased 9.4 million common shares for \$924 million under its current NCIB.

The following table provides the information related to the share repurchases for the three months ended March 31, 2018 and 2017:

<i>In millions, except per share data</i>	Three months ended March 31	
	2018	2017
Number of common shares repurchased <sup>(1)</sup>	6.5	5.4
Weighted-average price per share <sup>(2)</sup>	\$ 97.48	\$ 90.73
Amount of repurchase <sup>(3)</sup>	\$ 631	\$ 491

(1) Includes repurchases of common shares in the first quarter of 2017 pursuant to private agreements between the Company and arm's length third-party sellers.

(2) Includes brokerage fees where applicable.

(3) 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 (see Note 8 – Stock-based compensation). Additional information relating to Share Trusts is provided in Note 13 – Share capital to the Company's 2017 Annual Consolidated Financial Statements.

The following table provides the information related to the activity of the Share Trusts for the three months ended March 31, 2018 and 2017:

<i>In millions, except per share data</i>	Three months ended March 31	
	2018	2017
<b>Share settlements by Share Trusts</b>		
Number of common shares	0.4	0.3
Weighted-average price per share	\$ 84.53	\$ 77.99
Amount of settlement	\$ 31	\$ 24

### 7 – 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 12 – Pensions and other postretirement benefits* to the Company's 2017 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, 2018 and 2017:

<i>In millions</i>	Three months ended March 31			
	Pensions		Other postretirement benefits	
	2018	2017	2018	2017
Current service cost	\$ 41	\$ 34	\$ 1	\$ 1
<b>Other components of net periodic benefit cost (income) <sup>(1)</sup></b>				
Interest cost	142	135	2	2
Expected return on plan assets	(271)	(262)	-	-
Amortization of prior service cost	1	1	-	-
Amortization of net actuarial loss (gain)	50	46	(1)	(1)
<b>Total Other components of net periodic benefit cost (income)</b>	<b>(78)</b>	<b>(80)</b>	<b>1</b>	<b>1</b>
<b>Net periodic benefit cost (income)</b>	<b>\$ (37)</b>	<b>\$ (46)</b>	<b>\$ 2</b>	<b>\$ 2</b>

(1) The Company adopted ASU 2017-07: *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* in the first quarter of 2018 on a retrospective basis. Current service cost continues to be reported in Labor and fringe benefits within Operating expenses, while the other components of net periodic benefit cost (income) are now reported in a separate caption below Operating income. Comparative figures on the Company's Consolidated Statements of Income have been adjusted to conform to the current presentation. Prior to the adoption of ASU 2017-07, all components of net periodic benefit cost (income) were reported in Labor and fringe benefits. See Note 2 – Recent accounting pronouncements for additional information.

#### Pension contributions

Pension contributions for the three months ended March 31, 2018 and 2017 of \$36 million and \$67 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 2018, the Company expects to make total cash contributions of approximately \$125 million for all of the Company's pension plans.

### 8 – Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the major plans is provided in *Note 14 – Stock-based compensation* to the Company's 2017 Annual Consolidated Financial Statements.

<i>In millions</i>	Three months ended March 31	
	2018	2017
<b>Share Units Plan <sup>(1)</sup></b>		
Equity settled awards	\$ 5	\$ 9
Cash settled awards	-	1
<b>Total Share Units Plan expense</b>	<b>\$ 5</b>	<b>\$ 10</b>
<b>Voluntary Incentive Deferral Plan (VIDP) <sup>(2)</sup></b>		
Cash settled awards	\$ (2)	\$ 3
<b>Total VIDP expense (recovery)</b>	<b>\$ (2)</b>	<b>\$ 3</b>
<b>Stock option awards</b>	<b>\$ 3</b>	<b>\$ 3</b>
<b>Total stock-based compensation expense</b>	<b>\$ 6</b>	<b>\$ 16</b>
Tax benefit recognized in income	\$ 1	\$ 4
Excess tax benefit recognized in income	\$ 8	\$ 9

(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.

## Notes to Unaudited Consolidated Financial Statements

### Share Units Plan

	Equity settled			
	PSUs-ROIC <sup>(1)</sup>		PSUs-TSR <sup>(2)</sup>	
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value
	In millions		In millions	
Outstanding at December 31, 2017	1.2	\$ 46.35	0.4	\$ 104.32
Granted	0.4	\$ 49.39	0.1	\$ 102.74
Settled <sup>(3)</sup>	(0.4)	\$ 50.87	(0.1)	\$ 114.86
Forfeited	-	\$ 49.05	-	\$ 102.47
<b>Outstanding at March 31, 2018</b>	<b>1.2</b>	<b>\$ 45.69</b>	<b>0.4</b>	<b>\$ 100.33</b>

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2018 of \$20 million is calculated using a lattice-based valuation model. As at March 31, 2018, total unrecognized compensation cost related to these awards was \$30 million and is expected to be recognized over a weighted-average period of 2.0 years.

(2) The grant date fair value of equity settled PSUs-TSR granted in 2018 of \$13 million is calculated using a Monte Carlo simulation model. As at March 31, 2018, total unrecognized compensation cost related to these awards was \$16 million and is expected to be recognized over a weighted-average period of 2.1 years.

(3) Equity settled PSUs-ROIC granted in 2015 met the minimum share price condition for settlement and attained a performance vesting factor of 135%. Equity settled PSUs-TSR granted in 2015 attained a performance vesting factor of 142%. In the first quarter of 2018, these awards were settled, net of the remittance of the participants' withholding tax obligation of \$34 million, by way of disbursement from the Share Trusts of 0.4 million common shares.

### Voluntary Incentive Deferral Plan

	Equity settled		Cash settled
	DSUs <sup>(1)</sup>		DSUs <sup>(2)</sup>
	Units	Weighted-average grant date fair value	Units
	In millions		In millions
Outstanding at December 31, 2017	1.1	\$ 77.81	0.2
Granted	0.1	\$ 95.64	-
Settled	-	\$ 78.14	-
<b>Outstanding at March 31, 2018 <sup>(3)</sup></b>	<b>1.2</b>	<b>\$ 78.66</b>	<b>0.2</b>

(1) The grant date fair value of equity settled DSUs granted in 2018 of \$4 million is calculated using the Company's stock price on the grant date. As at March 31, 2018, the aggregate intrinsic value of equity settled DSUs outstanding amounted to \$101 million.

(2) The fair value of cash settled DSUs as at March 31, 2018 is based on the intrinsic value. As at March 31, 2018, the liability for cash settled DSUs was \$26 million (\$30 million as at December 31, 2017). The closing stock price used to determine the liability was \$94.16.

(3) 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, 2017 <sup>(1)</sup>	5.1	\$ 66.78
Granted <sup>(2)</sup>	1.0	\$ 96.81
Exercised	(0.2)	\$ 52.63
Forfeited	(0.2)	\$ 100.64
<b>Outstanding at March 31, 2018 <sup>(1) (2) (3)</sup></b>	<b>5.7</b>	<b>\$ 72.72</b>
<b>Exercisable at March 31, 2018 <sup>(1) (3)</sup></b>	<b>3.4</b>	<b>\$ 61.62</b>

(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 2018 of \$15 million (\$15.05 per option) is calculated using the Black-Scholes option-pricing model. As at March 31, 2018, total unrecognized compensation cost related to these awards was \$17 million and is expected to be recognized over a weighted-average period of 2.5 years.

(3) As at March 31, 2018, the vast majority of stock options were in-the-money. The weighted-average term to expiration of options outstanding was 6.8 years and the weighted-average term to expiration of exercisable stock options was 5.4 years. As at March 31, 2018, the aggregate intrinsic value of in-the-money stock options outstanding amounted to \$127 million and the aggregate intrinsic value of stock options exercisable amounted to \$111 million.

## 9 – Accumulated other comprehensive loss

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Total before tax	Income tax recovery (expense)	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 <sup>(1)</sup>	(190)		(190)	26	(164)
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		49	49 <sup>(2)</sup>	(14) <sup>(3)</sup>	35
Amortization of prior service cost		1	1 <sup>(2)</sup>	- <sup>(3)</sup>	1
<i>Other comprehensive income</i>	107	50	157	12	169
<b>Balance at March 31, 2018</b>	<b>\$ (337)</b>	<b>\$ (3,072)</b>	<b>\$ (3,409)</b>	<b>\$ 794</b>	<b>\$ (2,615)</b>

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2016	\$ (247)	\$ (2,898)	\$ (3,145)	\$ 787	\$ (2,358)
Other comprehensive income (loss) before reclassifications:					
Foreign exchange loss on translation of net investment in foreign operations	(99)		(99)	-	(99)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations <sup>(1)</sup>	76		76	(10)	66
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		45	45 <sup>(2)</sup>	(12) <sup>(3)</sup>	33
Amortization of prior service cost		1	1 <sup>(2)</sup>	- <sup>(3)</sup>	1
<i>Other comprehensive income (loss)</i>	(23)	46	23	(22)	1
<b>Balance at March 31, 2017</b>	<b>\$ (270)</b>	<b>\$ (2,852)</b>	<b>\$ (3,122)</b>	<b>\$ 765</b>	<b>\$ (2,357)</b>

(1) The Company designates US dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in foreign operations. As a result, 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 volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(2) Reclassified to Other components of net periodic benefit income in the Consolidated Statements of Income and included in net periodic benefit cost. See Note 7 - Pensions and other postretirement benefits.

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

### 10 – Major commitments and contingencies

#### Purchase commitments

As at March 31, 2018, the Company had fixed price commitments to purchase locomotives, rail, engineering service contracts, information technology service contracts and licenses, as well as other equipment and services. In addition, the Company had variable commitments to purchase wheels and railroad ties based on forecasted volumes and fuel based on forecasted market prices. The total aggregate cost of these commitments was \$2,230 million.

#### 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, 2018, the Company had aggregate reserves for personal injury and other claims of \$314 million, of which \$81 million was recorded as a current liability (\$299 million as at December 31, 2017, of which \$65 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, 2018, 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 has identified approximately 150 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the U.S. federal *Comprehensive Environmental Response, Compensation and Liability Act of 1980* (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at 6 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

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.

## Notes to Unaudited Consolidated Financial Statements

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, 2018, the Company had aggregate accruals for environmental costs of \$78 million, of which \$44 million was recorded as a current liability (\$78 million as at December 31, 2017, of which \$57 million was recorded as a current liability). The Company anticipates that the majority of the liability at March 31, 2018 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 16 – Major commitments and contingencies* to the Company's 2017 Annual Consolidated Financial Statements.

### ***Guarantee of residual values of operating leases***

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2018 and 2023, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at March 31, 2018, the maximum exposure in respect of these guarantees was \$133 million (\$141 million as at December 31, 2017). There are no recourse provisions to recover any amounts from third parties.

### ***Other guarantees***

As at March 31, 2018, the Company had outstanding letters of credit of \$396 million (\$394 million as at December 31, 2017) under the committed bilateral letter of credit facilities and \$137 million (\$136 million as at December 31, 2017) under the uncommitted bilateral letter of credit facilities, and surety and other bonds of \$167 million (\$167 million as at December 31, 2017), 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, 2018, the maximum potential liability under these guarantee instruments was \$700 million (\$697 million as at December 31, 2017), of which \$650 million (\$648 million as at December 31, 2017) related to other employee benefit liabilities and workers' compensation and \$50 million (\$49 million as at December 31, 2017) related to other liabilities. The guarantee instruments expire at various dates between 2018 and 2020.

As at March 31, 2018, 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.

## 11 – 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, 2018, the Company had outstanding foreign exchange forward contracts with a notional value of US\$1,576 million (US\$887 million as at December 31, 2017). 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, 2018 and 2017, the Company recorded a gain of \$44 million and a loss of \$15 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, 2018, Other current assets included an unrealized gain of \$36 million (\$nil as at December 31, 2017) and Accounts payable and other included an unrealized loss of \$2 million (\$19 million as at December 31, 2017), related to the fair value of outstanding foreign exchange forward contracts.

### Fair value of financial instruments

The following table provides the valuation methods and assumptions used by the Company to estimate the fair value of financial instruments and their associated level within the fair value hierarchy:

<b>Level 1</b> <b>Quoted prices for identical instruments in active markets</b>	<p>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.</p>
<b>Level 2</b> <b>Significant inputs (other than quoted prices included in Level 1) are observable</b>	<p>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 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.</p> <p>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, credit rating, and remaining maturity. As at March 31, 2018, the Company's debt had a carrying amount of \$11,912 million (\$10,828 million as at December 31, 2017) and a fair value of \$12,934 million (\$12,164 million as at December 31, 2017).</p>
<b>Level 3</b> <b>Significant inputs are unobservable</b>	<p>The carrying amounts of investments included in Intangible and other assets approximate fair value, with the exception of investments in equity securities measured at cost minus impairment, plus or minus observable price changes, for which fair value is not readily determinable. As at March 31, 2018, the carrying amount of investments was \$75 million (\$73 million as at December 31, 2017).</p>