Q1-2020 FINANCIAL RESULTS CALL

Shifting Supply Chains

Canada is a trading nation and CN enables trade. As a result of higher manufacturing labour costs in China, we are seeing production moving to other nearby countries. That is one reason why CN continues to pursue its "East Coast strategy" at the Port of Halifax as over time, we believe that countries like Vietnam, Singapore and India will become more important trading partners.

Cost control

Due to the current challenging economic climate, CN continues to right-size all resources to adjust to the weaker demand environment in light of the COVID-19 pandemic. At CN, most of our expenses are variable, except for depreciation, which is expected to be higher this year due to the additional Capex we deployed over the past two years to add capacity and improve resiliency. The other category that is less variable is the pension expense, which depends on the discount rate at the end of the year. We've also had our challenges this past quarter with over 30 blockades, and our operating team did a great job as we recovered network fluidity during the month of March. As a result, CN delivered an all-time record for Canadian grain and Canadian coal in March.

CAPEX

CN continues to have long-term structural competitive advantages and will continue to make strategic investments on our network to accommodate future growth opportunities. For example, the Port of Prince Rupert remains an efficient gateway for many customers including propane producers. Exporting propane through Prince Rupert provides for a better "netback" for these customers. As a result, Altagas, which opened a new terminal in May 2019, is moving forward with an increased production out of their facility in Prince Rupert and Pembina's new facility, also in Prince Rupert, is moving ahead in Q4 or possibly Q1 of next year. CN is continuing along the path of replicating the model of Prince Rupert in the east coast. For example, CN is building a strong partnership with PSA International at the Port of Halifax and we are putting together some very unique round-trip economic scenarios for our steamship line customers.

Free Cash Flow

The pandemic is having an unprecedented and extraordinary impact on the global economy. We are continuing to closely monitor demand in each of our business segments and are moving swiftly to ensure our resources are well aligned. The rail sector and CN specifically, has a proven track record of resiliency in periods of economic weakness. While it is clear that no one can predict the ultimate impact of the current global economic environment, based on what we know today, the company is working to generate a minimum of approximately $2.5 billion of free cash flow.

Fuel Efficiency

Operating efficiently has been the hallmark of CN's success. We are a leader in the North American rail industry, consuming almost 15% less fuel per gross ton mile than the industry average. A lot of that success has to do with day-in day-out discipline of how we use our locomotives – maximizing tonnage to horsepower, limiting throttling and managing idle locomotives. Beyond that, we use technology and work with the equipment vendor to get our manual processes integrated as a part of new locomotive technology. Over the long term, we're targeting a 29% reduction in emissions by 2030 versus 2015, and we're going to do everything we can to reach that goal. Fuel efficiency is part of our daily process and our daily focus. As technology continues to evolve, we'll only get better as we go forward.