



POWERING
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2022 QUARTERLY REVIEW **FOURTH QUARTER**

(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, including statements based on management's assessment and assumptions and publicly available information with respect to CN. By their nature, forward-looking statements involve risks, uncertainties and assumptions. CN 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.

2023 key assumptions

CN has made a number of economic and market assumptions in preparing its 2023 outlook. The Company assumes negative North American industrial production in 2023. For the 2022/2023 crop year, the grain crop in Canada was above its three-year average (or in line when excluding the significantly lower 2021/2022 crop year) and the U.S. grain crop was in line with its three-year average. The Company assumes that the 2023/2024 grain crops in Canada and the U.S. will be in line with their respective three-year averages (excluding the significantly lower 2021/2022 crop year in Canada). CN assumes continued pricing above rail inflation upon contract renewals. CN assumes that in 2023, the value of the Canadian dollar in U.S. currency will be approximately \$0.75, and assumes that in 2023 the average price of crude oil (West Texas Intermediate) will be approximately in the US\$75 - US\$80 range per barrel.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause actual results, performance or achievements of CN to be materially different from the outlook or any future results, performance or achievements 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, general economic and business conditions, including factors impacting global supply chains such as pandemics and geopolitical conflicts and tensions; 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 illegal blockades of rail networks, and 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 also 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 relating to CN.

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. Information contained on, or accessible through, our website is not a part of this news release.

(3) Per 200,000 person hours, based on Federal Railroad Administration (FRA) reporting criteria.

(4) Per million train miles, based on FRA reporting criteria.

This earnings news release is 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.

About CN

CN is a world-class transportation leader and trade-enabler. Essential to the economy, to the customers, and to the communities it serves, CN safely transports more than 300 million tons of natural resources, manufactured products, and finished goods throughout North America every year. CN's network connects Canada's Eastern and Western coasts with the U.S. South through a 18,600-mile rail network. CN and its affiliates have been contributing to community prosperity and sustainable trade since 1919. CN is committed to programs supporting social responsibility and environmental stewardship.

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North America's Railroad

CN Announces Fourth Quarter and Year-End Results

Railroad Delivered on 2022 Guidance, Focused on Scheduled Railroading

MONTREAL, January 24, 2023 – CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the fourth quarter and year ended December 31, 2022. Diluted earnings per share (EPS) of C\$2.10 grew by 23% on an adjusted basis in the fourth quarter, and operating ratio remained flat at 57.9% on an adjusted basis. ⁽¹⁾ For the same period, the Company reported diluted EPS growth of 24%, while operating ratio improved 0.4 points.

"I am very proud of the work accomplished by our team in the fourth quarter and throughout the year. Our approach to scheduled railroading improved our service to our customers, drove operational efficiency, and built the resiliency that enabled a rapid recovery during the extreme winter conditions late in the quarter. As we look to 2023, we believe our back-to-basics strategy and disciplined operating model will continue to deliver despite the softening economy."

– Tracy Robinson, President and Chief Executive Officer, CN

Financial results highlights

Fourth-quarter 2022 compared to fourth-quarter 2021

- Revenues of C\$4,542 million, an increase of C\$789 million or 21%.
- Operating income of C\$1,912 million, an increase of 22%, or an increase of 21% on an adjusted basis. ⁽¹⁾
- Diluted EPS of C\$2.10, an increase of 24%, or an increase of 23% on an adjusted basis. ⁽¹⁾
- Operating ratio, defined as operating expenses as a percentage of revenues, of 57.9%, an improvement of 0.4 points, or remained flat on an adjusted basis. ⁽¹⁾

Full-year 2022 compared to full-year 2021

- Revenues of C\$17,107 million, an increase of C\$2,630 million or 18%.
- Operating income of C\$6,840 million, an increase of 22%, and adjusted operating income of C\$6,862 million, an increase of 22%. ⁽¹⁾
- Diluted EPS of C\$7.44, an increase of 8%, and adjusted diluted EPS of C\$7.46, an increase of 25%. ⁽¹⁾
- Operating ratio of 60.0%, an improvement of 1.2 points, and adjusted operating ratio of 59.9%, an improvement of 1.3 points. ⁽¹⁾
- Free cash flow of C\$4,259 million compared to C\$3,296 million in 2021. ⁽¹⁾
- Return on invested capital (ROIC) of 15.8%, a decrease of 0.6 points, and adjusted ROIC of 15.9%, an increase of 1.8 points. ⁽¹⁾

Operating performance

Fourth-quarter 2022 compared to fourth-quarter 2021

Operating performance improved across most measures in the fourth quarter of 2022 when compared to the same period in 2021.

- Injury frequency rate ⁽³⁾ improved by 34% and the accident rate ⁽⁴⁾ improved by 13%.
- Fuel efficiency improved by 1% to 0.886 US gallons of locomotive fuel consumed per 1,000 gross ton miles (GTMs).
- Car velocity (car miles per day) improved by 10%.
- Through network train speed (mph) improved by 1%.
- Through dwell (entire railroad, hours) improved by 9%.
- Train length (in feet) decreased by 7%.

Full-year 2022 compared to full-year 2021

The Company's focus on scheduled railroading has resulted in improvements in car velocity, through dwell and fuel efficiency, as well as a decrease in train length and train weight, despite negative impacts from the harsh winter in the first quarter of 2022.

- Injury frequency rate ⁽³⁾ improved by 19% and the accident rate ⁽⁴⁾ increased by 7%.
- Fuel efficiency improved by 2% to 0.867 US gallons of locomotive fuel consumed per 1,000 GTMs.
- Car velocity (car miles per day) improved by 1%.
- Through network train speed (mph) decreased by 2%.
- Through dwell (entire railroad, hours) improved by 4%.
- Train length (in feet) decreased by 5%.

2023 outlook and shareholder distributions ⁽²⁾

CN expects to deliver EPS growth in the low single-digit range due to a softer economic outlook.

The Company's Board of Directors approved an 8% increase to CN's 2023 quarterly cash dividend, effective for the first quarter of 2023. This is the 27th consecutive year of dividend increases, demonstrating our confidence in the long-term financial health of the Company. In addition, the Company's Board of Directors also approved a new Normal course issuer bid (NCIB) that permits CN to purchase, for cancellation, over a 12-month period up to 32 million common shares, starting on February 1, 2023, and ending no later than January 31, 2024.

Fourth-quarter 2022 revenues, traffic volumes and expenses

Revenues for the quarter increased by 21% to C\$4,542 million, when compared to the same period in 2021. The increase in revenues was mainly attributable to higher fuel surcharge revenue as a result of higher fuel prices, the positive translation impact of a weaker Canadian dollar, freight rate increases and higher volumes of Canadian grain.

RTMs, measuring the weight and distance of freight transported by CN, increased by 6%. Freight revenue per RTM increased by 15%, mainly driven by higher fuel surcharge revenue as a result of higher fuel prices, the positive translation impact of a weaker Canadian dollar and freight rate increases.

Operating expenses for the quarter increased by 20% to C\$2,630 million, when compared to the same period in 2021. The increase was mainly as a result of higher fuel prices and the negative translation impact of a weaker Canadian dollar.

Full-year 2022 revenues, traffic volumes and expenses

Revenues for 2022 increased by 18% to C\$17,107 million, when compared to 2021. The increase in revenues was mainly attributable to higher fuel surcharge revenue as a result of higher fuel prices, freight rate increases, the positive translation impact of a weaker Canadian dollar, higher Canadian export volumes of coal via west coast ports and higher volumes of U.S. grain; partly offset by lower international container traffic volumes via the port of Vancouver as a result of supply chain congestion and significantly lower export volumes of Canadian grain in the first half of 2022.

RTMs increased by 1%. Freight revenue per RTM increased by 18%, mainly driven by higher fuel surcharge revenue as a result of higher fuel prices, freight rate increases, a decrease in the average length of haul and the positive translation impact of a weaker Canadian dollar.

Operating expenses increased by 16% to C\$10,267 million, mainly due to higher fuel prices 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, including adjusted net income, adjusted diluted earnings per share (EPS), adjusted operating income and adjusted operating ratio (referred to as adjusted performance measures), free cash flow, return on invested capital (ROIC) and adjusted ROIC. These non-GAAP measures may not be comparable to similar measures presented by other companies. For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the attached supplementary schedule, Non-GAAP Measures.

CN's full-year adjusted diluted EPS outlook ⁽²⁾ excludes the expected impact of certain income and expense items, which are expected to be comparable to adjustments made in prior years. However, management cannot individually quantify on a forward-looking basis the impact of these adjustments, which could be significant, as they are difficult to predict and may be highly variable. As a result, CN does not provide a corresponding GAAP measure for, or reconciliation to, its adjusted diluted EPS outlook.

Selected Railroad Statistics – unaudited

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Financial measures				
Key financial performance indicators ⁽¹⁾				
Total revenues (\$ millions)	4,542	3,753	17,107	14,477
Freight revenues (\$ millions)	4,400	3,586	16,569	13,888
Operating income (\$ millions)	1,912	1,566	6,840	5,616
Adjusted operating income (\$ millions) ⁽²⁾⁽³⁾	1,912	1,579	6,862	5,622
Net income (\$ millions) ⁽⁴⁾	1,420	1,201	5,118	4,899
Adjusted net income (\$ millions) ⁽²⁾⁽³⁾⁽⁴⁾	1,420	1,211	5,134	4,225
Diluted earnings per share (\$) ⁽⁴⁾	2.10	1.70	7.44	6.90
Adjusted diluted earnings per share (\$) ⁽²⁾⁽³⁾⁽⁴⁾	2.10	1.71	7.46	5.95
Free cash flow (\$ millions) ⁽²⁾⁽⁵⁾	1,335	1,262	4,259	3,296
Gross property additions (\$ millions)	927	920	2,757	2,897
Share repurchases (\$ millions)	1,065	1,059	4,709	1,582
Dividends per share (\$)	0.7325	0.6150	2.9300	2.4600
Financial ratio				
Operating ratio (%) ⁽⁶⁾	57.9	58.3	60.0	61.2
Adjusted operating ratio (%) ⁽²⁾⁽³⁾	57.9	57.9	59.9	61.2
Operational measures ⁽⁷⁾				
Statistical operating data				
Gross ton miles (GTMs) (millions)	116,317	110,196	463,710	458,401
Revenue ton miles (RTMs) (millions)	60,143	56,563	235,788	233,138
Carloads (thousands)	1,408	1,374	5,697	5,701
Route miles (includes Canada and the U.S.)	18,600	19,500	18,600	19,500
Employees (end of period)	23,971	22,604	23,971	22,604
Employees (average for the period)	23,998	23,107	23,396	24,084
Key operating measures				
Freight revenue per RTM (cents)	7.32	6.34	7.03	5.96
Freight revenue per carload (\$)	3,125	2,610	2,908	2,436
GTMs per average number of employees (thousands)	4,847	4,769	19,820	19,033
Operating expenses per GTM (cents)	2.26	1.98	2.21	1.93
Labor and fringe benefits expense per GTM (cents)	0.63	0.61	0.63	0.63
Diesel fuel consumed (US gallons in millions)	103.0	98.3	402.2	405.2
Average fuel price (\$/US gallon)	5.73	3.70	5.42	3.28
Fuel efficiency (US gallons of locomotive fuel consumed per 1,000 GTMs)	0.886	0.892	0.867	0.884
Train weight (tons)	9,148	9,665	9,324	9,658
Train length (feet)	7,870	8,491	8,160	8,559
Car velocity (car miles per day)	207	189	196	195
Through dwell (entire railroad, hours)	7.2	7.9	7.6	7.9
Through network train speed (miles per hour)	19.6	19.5	18.9	19.2
Locomotive utilization (trailing GTMs per total horsepower)	196	194	197	198
Safety indicators ⁽⁸⁾				
Injury frequency rate (per 200,000 person hours)	0.93	1.40	1.10	1.36
Accident rate (per million train miles)	1.82	2.08	1.97	1.84

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

(2) These non-GAAP measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

(3) See the supplementary schedule entitled Non-GAAP Measures – Adjusted performance measures for an explanation of these non-GAAP measures.

(4) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(5) See the supplementary schedule entitled Non-GAAP Measures – Free cash flow for an explanation of this non-GAAP measure.

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

(7) 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 gross ton miles, fuel efficiency, train weight, train length, car velocity, through dwell and through network train speed are included within the Company's Management's Discussion and Analysis. Definitions of all other indicators are provided on CN's website, www.cn.ca/glossary.

(8) Based on Federal Railroad Administration (FRA) reporting criteria.

Supplementary Information – unaudited

	Three months ended December 31				Year ended December 31			
	2022	2021	% Change Fav (Unfav)	% Change at constant currency ⁽¹⁾ Fav (Unfav)	2022	2021	% Change Fav (Unfav)	% Change at constant currency ⁽¹⁾ Fav (Unfav)
Revenues (\$ millions)⁽²⁾								
Petroleum and chemicals	794	755	5%	—%	3,229	2,816	15%	12%
Metals and minerals	500	393	27%	20%	1,911	1,548	23%	20%
Forest products	517	435	19%	12%	2,006	1,740	15%	12%
Coal	235	165	42%	39%	937	618	52%	50%
Grain and fertilizers	954	643	48%	43%	2,783	2,475	12%	10%
Intermodal	1,184	1,049	13%	10%	4,906	4,115	19%	18%
Automotive	216	146	48%	39%	797	576	38%	34%
<i>Total freight revenues</i>	4,400	3,586	23%	18%	16,569	13,888	19%	17%
Other revenues	142	167	(15%)	(19%)	538	589	(9%)	(11%)
<i>Total revenues</i>	4,542	3,753	21%	16%	17,107	14,477	18%	16%
Revenue ton miles (RTMs) (millions)⁽³⁾								
Petroleum and chemicals	10,669	10,955	(3%)	(3%)	46,273	42,436	9%	9%
Metals and minerals	6,753	6,617	2%	2%	27,606	26,743	3%	3%
Forest products	5,937	6,087	(2%)	(2%)	25,020	25,948	(4%)	(4%)
Coal	5,415	4,608	18%	18%	22,679	18,471	23%	23%
Grain and fertilizers	17,611	14,196	24%	24%	55,359	58,733	(6%)	(6%)
Intermodal	13,063	13,529	(3%)	(3%)	56,029	58,412	(4%)	(4%)
Automotive	695	571	22%	22%	2,822	2,395	18%	18%
<i>Total RTMs</i>	60,143	56,563	6%	6%	235,788	233,138	1%	1%
Freight revenue / RTM (cents)⁽²⁾⁽³⁾								
Petroleum and chemicals	7.44	6.89	8%	3%	6.98	6.64	5%	3%
Metals and minerals	7.40	5.94	25%	17%	6.92	5.79	20%	16%
Forest products	8.71	7.15	22%	15%	8.02	6.71	20%	16%
Coal	4.34	3.58	21%	19%	4.13	3.35	23%	22%
Grain and fertilizers	5.42	4.53	20%	16%	5.03	4.21	19%	17%
Intermodal	9.06	7.75	17%	14%	8.76	7.04	24%	23%
Automotive	31.08	25.57	22%	14%	28.24	24.05	17%	14%
<i>Total freight revenue / RTM</i>	7.32	6.34	15%	11%	7.03	5.96	18%	15%
Carloads (thousands)⁽³⁾								
Petroleum and chemicals	154	153	1%	1%	636	596	7%	7%
Metals and minerals	247	239	3%	3%	956	969	(1%)	(1%)
Forest products	80	81	(1%)	(1%)	330	339	(3%)	(3%)
Coal	126	101	25%	25%	503	379	33%	33%
Grain and fertilizers	192	159	21%	21%	614	628	(2%)	(2%)
Intermodal	556	595	(7%)	(7%)	2,450	2,611	(6%)	(6%)
Automotive	53	46	15%	15%	208	179	16%	16%
<i>Total carloads</i>	1,408	1,374	2%	2%	5,697	5,701	—%	—%
Freight revenue / carload (\$) ⁽²⁾⁽³⁾								
Petroleum and chemicals	5,156	4,935	4%	—%	5,077	4,725	7%	5%
Metals and minerals	2,024	1,644	23%	16%	1,999	1,598	25%	21%
Forest products	6,463	5,370	20%	14%	6,079	5,133	18%	15%
Coal	1,865	1,634	14%	12%	1,863	1,631	14%	13%
Grain and fertilizers	4,969	4,044	23%	19%	4,533	3,941	15%	13%
Intermodal	2,129	1,763	21%	18%	2,002	1,576	27%	26%
Automotive	4,075	3,174	28%	21%	3,832	3,218	19%	15%
<i>Total freight revenue / carload</i>	3,125	2,610	20%	15%	2,908	2,436	19%	17%

(1) This non-GAAP measure does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. See the supplementary schedule entitled Non-GAAP Measures – Constant currency 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, adjusted debt-to-adjusted EBITDA multiple, return on invested capital (ROIC) and adjusted ROIC. 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

Adjusted net income, adjusted diluted earnings per share, adjusted operating income, adjusted operating expenses and adjusted operating ratio are non-GAAP measures that are used to set performance goals and to measure CN’s performance. Management believes that these adjusted performance measures provide additional insight to management and investors into the Company’s operations and underlying business trends as well as facilitate period-to-period comparisons, as they exclude certain significant items that are not reflective of CN’s underlying business operations and could distort the analysis of trends in business performance. These items may include:

- i. operating expense adjustments: workforce reduction program, depreciation expense on the deployment of replacement system, advisory fees related to shareholder matters, losses and recoveries from assets held for sale, business acquisition-related costs;
- ii. non-operating expense adjustments: business acquisition-related financing fees, merger termination income, gains and losses on disposal of property; and
- iii. the effect of tax law changes and rate enactments.

These non-GAAP 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 and year ended December 31, 2022, the Company’s adjusted net income was \$1,420 million, or \$2.10 per diluted share, and \$5,134 million, or \$7.46 per diluted share, respectively. The adjusted figures for the year ended December 31, 2022 exclude advisory fees related to shareholder matters of \$22 million, or \$16 million after-tax (\$0.02 per diluted share) recorded in Casualty and other within the Consolidated Statements of Income.

For the three months and year ended December 31, 2021, the Company’s adjusted net income was \$1,211 million, or \$1.71 per diluted share, and \$4,225 million, or \$5.95 per diluted share, respectively. ⁽¹⁾ The adjusted figures exclude:

- employee termination benefits and severance costs related to a workforce reduction program of \$39 million, or \$29 million after-tax (\$0.04 per diluted share) recorded in the third quarter in Labor and fringe benefits within the Consolidated Statements of Income;
- advisory fees related to shareholder matters of \$20 million, or \$15 million after-tax (\$0.02 per diluted share) of which \$13 million, or \$10 million after-tax (\$0.01 per diluted share) was recorded in the fourth quarter and \$7 million, or \$5 million after-tax (\$0.01 per diluted share) was recorded in the third quarter in Casualty and other within the Consolidated Statements of Income;
- the recovery of \$137 million, or \$102 million after-tax (\$0.14 per diluted share) recorded in the first quarter related to the loss on assets held for sale in the second quarter of 2020, to reflect an agreement for the sale for on-going rail operations, certain non-core rail lines in Wisconsin, Michigan and Ontario to a short line operator;
- transaction-related costs, consisting of an advance to Kansas City Southern (KCS) and a related refund, net of transaction costs, of \$84 million, or \$70 million after-tax (\$0.10 per diluted share), recorded in the third quarter resulting from the terminated CN Merger Agreement with KCS;
- amortization of bridge financing and other fees of \$97 million, or \$84 million after-tax (\$0.11 per diluted share), of which \$65 million, or \$60 million after-tax (\$0.08 per diluted share) was recorded in the third quarter and \$32 million, or \$24 million after-tax (\$0.03 per diluted share) was recorded in the second quarter, resulting from the KCS transaction, recorded in Interest expense within the Consolidated Statements of Income; and
- merger termination fee paid by KCS to CN of \$886 million, or \$770 million after-tax (\$1.08 per diluted share), recorded in the third quarter resulting from KCS’ notice of termination of the CN Merger Agreement with KCS.

(1) See Note 2 – Change in accounting policy to the Company’s unaudited Interim Consolidated Financial Statements for additional information.

Non-GAAP Measures – unaudited

Adjusted net income is defined as Net income in accordance with GAAP adjusted for certain significant items. Adjusted diluted earnings per share is defined as adjusted net income divided by the weighted-average diluted shares outstanding. The following table provides a reconciliation of Net income and Earnings per share in accordance with GAAP, as reported for the three months and years ended December 31, 2022 and 2021, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net income ⁽¹⁾	\$ 1,420	\$ 1,201	\$ 5,118	\$ 4,899
<i>Adjustments:</i>				
<i>Operating expense adjustments:</i>				
Workforce reduction program	—	—	—	39
Advisory fees related to shareholder matters	—	13	22	20
Recovery of loss on assets held for sale	—	—	—	(137)
Transaction-related costs	—	—	—	84
<i>Non-operating expense adjustments:</i>				
Amortization of bridge financing and other fees	—	—	—	97
Merger termination fee	—	—	—	(886)
<i>Tax adjustments:</i>				
Tax effect of adjustments ⁽²⁾	—	(3)	(6)	109
<i>Total adjustments</i>	—	10	16	(674)
<i>Adjusted net income ⁽¹⁾</i>	\$ 1,420	\$ 1,211	\$ 5,134	\$ 4,225
Diluted earnings per share ⁽¹⁾	\$ 2.10	\$ 1.70	\$ 7.44	\$ 6.90
<i>Impact of adjustments, per share</i>	—	0.01	0.02	(0.95)
<i>Adjusted diluted earnings per share ⁽¹⁾</i>	\$ 2.10	\$ 1.71	\$ 7.46	\$ 5.95

(1) See Note 2 – Change in accounting policy to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(2) The tax impact of adjustments is based on the nature of the item for tax purposes and related tax rates in the applicable jurisdiction.

Adjusted operating income is defined as Operating income in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating expenses is defined as Operating expenses in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating ratio is defined as adjusted operating expenses as a percentage of revenues. The following table provides a reconciliation of Operating income, Operating expenses and operating ratio, as reported for the three months and years ended December 31, 2022 and 2021, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentages</i>	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Operating income	\$ 1,912	\$ 1,566	\$ 6,840	\$ 5,616
<i>Operating expense adjustments:</i>				
Workforce reduction program	—	—	—	39
Advisory fees related to shareholder matters	—	13	22	20
Recovery of loss on assets held for sale	—	—	—	(137)
Transaction-related costs	—	—	—	84
<i>Total operating expense adjustments</i>	—	13	22	6
<i>Adjusted operating income</i>	\$ 1,912	\$ 1,579	\$ 6,862	\$ 5,622
Operating expenses	\$ 2,630	\$ 2,187	\$ 10,267	\$ 8,861
<i>Total operating expense adjustments</i>	—	(13)	(22)	(6)
<i>Adjusted operating expenses</i>	\$ 2,630	\$ 2,174	\$ 10,245	\$ 8,855
Operating ratio	57.9 %	58.3 %	60.0 %	61.2 %
<i>Impact of adjustments</i>	— %	(0.4)%	(0.1)%	— %
<i>Adjusted operating ratio</i>	57.9 %	57.9 %	59.9 %	61.2 %

Non-GAAP Measures – unaudited

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 weighted average foreign exchange rates used to translate transactions denominated in US dollars of the comparable period of the prior year.

The average foreign exchange rates were \$1.36 and \$1.30 per US\$1.00 for the three months and year ended December 31, 2022, respectively, and \$1.26 and \$1.25 per US\$1.00 for the three months and year ended December 31, 2021, respectively.

On a constant currency basis, the Company's Net income for the three months and year ended December 31, 2022 would have been lower by \$49 million (\$0.07 per diluted share) and lower by \$90 million (\$0.13 per diluted share), respectively.

The following table provides a reconciliation of the impact of constant currency and related percentage change at constant currency on the financial results, as reported for the three months and year ended December 31, 2022:

<i>In millions, except per share data</i>	Three months ended December 31				Year ended December 31			
	2022	Constant currency impact	2021	% Change at constant currency Fav (Unfav)	2022	Constant currency impact	2021	% Change at constant currency Fav (Unfav)
Revenues								
Petroleum and chemicals	\$ 794	\$ (37)	\$ 755	—%	\$ 3,229	\$ (74)	\$ 2,816	12%
Metals and minerals	500	(29)	393	20%	1,911	(57)	1,548	20%
Forest products	517	(29)	435	12%	2,006	(57)	1,740	12%
Coal	235	(5)	165	39%	937	(11)	618	50%
Grain and fertilizers	954	(32)	643	43%	2,783	(56)	2,475	10%
Intermodal	1,184	(29)	1,049	10%	4,906	(58)	4,115	18%
Automotive	216	(13)	146	39%	797	(24)	576	34%
<i>Total freight revenues</i>	4,400	(174)	3,586	18%	16,569	(337)	13,888	17%
Other revenues	142	(7)	167	(19%)	538	(15)	589	(11%)
<i>Total revenues</i>	4,542	(181)	3,753	16%	17,107	(352)	14,477	16%
Operating expenses								
Labor and fringe benefits	731	(20)	674	(5%)	2,935	(43)	2,879	—%
Purchased services and material	576	(16)	504	(11%)	2,191	(33)	2,082	(4%)
Fuel	672	(46)	419	(49%)	2,518	(88)	1,513	(61%)
Depreciation and amortization	451	(13)	383	(14%)	1,729	(25)	1,598	(7%)
Equipment rents	84	(5)	82	4%	338	(10)	336	2%
Casualty and other	116	(5)	125	11%	556	(15)	506	(7%)
Recovery of loss on assets held for sale	—	—	—	—%	—	—	(137)	(100%)
Transaction-related costs	—	—	—	—%	—	—	84	100%
<i>Total operating expenses</i>	2,630	(105)	2,187	(15%)	10,267	(214)	8,861	(13%)
<i>Operating income</i>	1,912	(76)	1,566	17%	6,840	(138)	5,616	19%
Interest expense	(153)	11	(125)	(14%)	(548)	18	(610)	13%
Other components of net periodic benefit income ⁽¹⁾	124	—	112	11%	498	—	407	22%
Merger termination fee	—	—	—	—%	—	—	886	(100%)
Other income (loss)	(2)	—	21	(110%)	(27)	—	43	(163%)
<i>Income before income taxes</i> ⁽¹⁾	1,881	(65)	1,574	15%	6,763	(120)	6,342	5%
Income tax expense ⁽¹⁾	(461)	16	(373)	(19%)	(1,645)	30	(1,443)	(12%)
Net income ⁽¹⁾	\$ 1,420	\$ (49)	\$ 1,201	14%	\$ 5,118	\$ (90)	\$ 4,899	3%
Diluted earnings per share ⁽¹⁾	\$ 2.10	\$ (0.07)	\$ 1.70	19%	\$ 7.44	\$ (0.13)	\$ 6.90	6%

(1) See Note 2 – Change in accounting policy to the Company's unaudited Interim Consolidated Financial Statements for additional information.

Non-GAAP Measures – unaudited

Free cash flow

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 (i) business acquisitions and (ii) merger transaction-related payments, cash receipts and cash income taxes, which are items that are not indicative of operating trends. 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 in accordance with GAAP, as reported for the three months and years ended December 31, 2022 and 2021, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 2,272	\$ 2,086	\$ 6,667	\$ 6,971
Net cash used in investing activities	(937)	(860)	(2,510)	(2,873)
Net cash provided before financing activities	1,335	1,226	4,157	4,098
<i>Adjustments:</i>				
Cash income taxes for merger transaction-related payments and cash receipts ⁽¹⁾	—	—	102	—
Transaction-related costs ⁽²⁾	—	36	—	125
Advance for acquisition ⁽³⁾	—	—	—	845
Refund of advance for acquisition ⁽³⁾	—	—	—	(886)
Merger termination fee ⁽³⁾	—	—	—	(886)
Total adjustments	—	36	102	(802)
Free cash flow	\$ 1,335	\$ 1,262	\$ 4,259	\$ 3,296

(1) Relates to income tax payments of \$102 million for KCS merger transaction-related payments and cash receipts. See Note 4 – Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(2) Relates to transaction-related costs of \$125 million paid. See Note 4 – Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(3) See Note 4 – Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted 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 the last twelve months of adjusted EBITDA. Adjusted debt is defined as the sum of Long-term debt and Current portion of long-term debt as reported on the Company's Consolidated Balance Sheets as well as Operating lease liabilities, including current portion and pension plans in deficiency recognized on the Company's Consolidated Balance Sheets due to the debt-like nature of their contractual and financial obligations. Adjusted EBITDA is calculated as Net income excluding Interest expense, Income tax expense, Depreciation and amortization, operating lease cost, Other components of net periodic benefit income, Other income (loss), and other significant items that are not reflective of CN's underlying business operations and which could distort the analysis of trends in business performance. Adjusted debt and adjusted EBITDA are non-GAAP measures used to compute the Adjusted debt-to-adjusted EBITDA multiple. 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 in accordance with GAAP, reported as at and for the years ended December 31, 2022 and 2021, respectively, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the year ended December 31,</i>		2022	2021
Debt	\$	15,429	\$	12,485
<i>Adjustments:</i>				
Operating lease liabilities, including current portion ⁽¹⁾		466		430
Pension plans in deficiency ⁽²⁾		353		447
Adjusted debt	\$	16,248	\$	13,362
Net income ⁽³⁾	\$	5,118	\$	4,899
Interest expense		548		610
Income tax expense ⁽³⁾		1,645		1,443
Depreciation and amortization		1,729		1,598
Operating lease cost ⁽⁴⁾		142		131
Other components of net periodic benefit income ⁽³⁾		(498)		(407)
Other loss (income)		27		(43)
<i>Adjustments:</i>				
Workforce reduction program ⁽⁵⁾		—		39
Advisory fees related to shareholder matters ⁽⁶⁾		22		20
Recovery of loss on assets held for sale ⁽⁷⁾		—		(137)
Transaction-related costs ⁽⁸⁾		—		84
Merger termination fee ⁽⁹⁾		—		(886)
Adjusted EBITDA	\$	8,733	\$	7,351
Adjusted debt-to-adjusted EBITDA multiple (times)		1.86		1.82

(1) Represents the present value of operating lease payments.

(2) Represents the total funded deficit of all defined benefit pension plans with a projected benefit obligation in excess of plan assets.

(3) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(4) Represents the operating lease costs recorded in Purchased services and material and Equipment rents within the Consolidated Statements of Income.

(5) Relates to employee termination benefits and severance costs related to a workforce reduction program, recorded in Labor and fringe benefits within the Consolidated Statements of Income.

(6) Relates to advisory fees related to shareholder matters recorded in Casualty and other within the Consolidated Statements of Income.

(7) Relates to the recovery of \$137 million of the \$486 million loss on assets held for sale recorded in the second quarter of 2020, resulting from the Company entering into an agreement for the sale of non-core lines. See Note 5 – Assets held for sale to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(8) Relates to transaction costs incurred as a result of the terminated CN Merger Agreement of \$84 million, consisting of \$125 million of transaction-related costs, partially offset by \$41 million of income generated as a result of the applicable foreign exchange rates prevailing at the time of payment and related receipt of the US\$700 million advance to KCS. See Note 4 – Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(9) Relates to the termination fee resulting from KCS terminating the CN Merger Agreement and entering into a merger agreement with CP. See Note 4 – Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

Non-GAAP Measures – unaudited

ROIC and adjusted ROIC

ROIC and adjusted ROIC are useful measures for management and investors to evaluate the efficiency of the Company's use of capital funds and allow investors to assess the operating and investment decisions made by management. The Company calculates ROIC as return divided by average invested capital, both of which are non-GAAP measures. Return is defined as Net income plus interest expense after-tax, calculated using the Company's effective tax rate. Average invested capital is defined as the sum of Total shareholders' equity, Long-term debt and Current portion of long-term debt less Cash and cash equivalents, and Restricted cash and cash equivalents, averaged between the beginning and ending balance over the last twelve-month period. The Company calculates adjusted ROIC as adjusted return divided by average invested capital, both of which are non-GAAP measures. Adjusted return is defined as adjusted net income plus interest expense after-tax, calculated using the Company's adjusted effective tax rate. Return, average invested capital, ROIC, adjusted return and adjusted ROIC 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 Net income and adjusted net income to return and adjusted return, respectively, as well as the calculation of average invested capital, which have been used to calculate ROIC and adjusted ROIC:

<i>In millions, except percentage</i>	<i>As at and for the year ended December 31,</i>		2022	2021
Net income ⁽¹⁾	\$	5,118	\$	4,899
Interest expense		548		610
Tax on interest expense ⁽²⁾		(133)		(139)
Return ⁽¹⁾	\$	5,533	\$	5,370
Average total shareholders' equity	\$	22,064	\$	21,198
Average long-term debt		13,175		11,987
Average current portion of long-term debt		783		709
Less: Average cash, cash equivalents, restricted cash and restricted cash equivalents		(1,088)		(1,221)
Average invested capital	\$	34,934	\$	32,673
ROIC ⁽¹⁾		15.8%		16.4%
Adjusted net income ⁽¹⁾⁽³⁾	\$	5,134	\$	4,225
Interest expense		548		610
Less: Amortization of bridge financing and other fees ⁽⁴⁾		—		(97)
Tax on interest expense less amortization of bridge financing and other fees ⁽⁵⁾		(133)		(123)
Adjusted return ⁽¹⁾	\$	5,549	\$	4,615
Average invested capital	\$	34,934	\$	32,673
Adjusted ROIC ⁽¹⁾		15.9%		14.1%

(1) See Note 2 – Change in accounting policy to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(2) The effective tax rate, defined as income tax expense as a percentage of income before income taxes, used to calculate the tax on interest expense for 2022 was 24.3% (2021 - 22.8%).

(3) This Non-GAAP measure does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. See the supplementary schedule entitled Non-GAAP Measures – Adjusted performance measures for an explanation of this non-GAAP measure.

(4) Relates to amortization of bridge financing and other fees resulting from the KCS transaction, recorded in Interest expense within the Consolidated Statements of Income. See Note 4 - Acquisition to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(5) The adjusted effective tax rate is a Non-GAAP measure, defined as Income tax expense, net of tax adjustments as presented in Adjusted performance measures as a percentage of Income before taxes, net of pre-tax adjustments as presented in Adjusted performance measures. This measure does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to a similar measure presented by other companies. The adjusted effective tax rate used to calculate the adjusted tax on interest expense less amortization of bridge financing and other fees for 2022 was 24.3% (2021 - 24.0%).

Consolidated Statements of Income – unaudited

<i>In millions, except per share data</i>	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Revenues	\$ 4,542	\$ 3,753	\$ 17,107	\$ 14,477
Operating expenses				
Labor and fringe benefits	731	674	2,935	2,879
Purchased services and material	576	504	2,191	2,082
Fuel	672	419	2,518	1,513
Depreciation and amortization	451	383	1,729	1,598
Equipment rents	84	82	338	336
Casualty and other	116	125	556	506
Recovery of loss on assets held for sale (Note 5)	—	—	—	(137)
Transaction-related costs (Note 4)	—	—	—	84
Total operating expenses	2,630	2,187	10,267	8,861
Operating income	1,912	1,566	6,840	5,616
Interest expense	(153)	(125)	(548)	(610)
Other components of net periodic benefit income ⁽¹⁾	124	112	498	407
Merger termination fee (Note 4)	—	—	—	886
Other income (loss)	(2)	21	(27)	43
Income before income taxes ⁽¹⁾	1,881	1,574	6,763	6,342
Income tax expense ⁽¹⁾	(461)	(373)	(1,645)	(1,443)
Net income ⁽¹⁾	\$ 1,420	\$ 1,201	\$ 5,118	\$ 4,899
Earnings per share				
Basic ⁽¹⁾	\$ 2.10	\$ 1.70	\$ 7.46	\$ 6.91
Diluted ⁽¹⁾	\$ 2.10	\$ 1.70	\$ 7.44	\$ 6.90
Weighted-average number of shares				
Basic	674.9	705.3	686.4	708.5
Diluted	676.9	707.4	688.3	710.3
Dividends declared per share	\$ 0.7325	\$ 0.6150	\$ 2.9300	\$ 2.4600

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

<i>In millions</i>	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net income ⁽¹⁾	\$ 1,420	\$ 1,201	\$ 5,118	\$ 4,899
Other comprehensive income (loss)				
Net income (loss) on foreign currency translation	(101)	(18)	366	(52)
Net change in pension and other postretirement benefit plans ⁽¹⁾	(399)	1,844	(250)	2,066
Derivative instruments	—	—	(2)	—
Other comprehensive income (loss) before income taxes ⁽¹⁾	(500)	1,826	114	2,014
Income tax recovery (expense) ⁽¹⁾	77	(486)	158	(544)
Other comprehensive income (loss) ⁽¹⁾	(423)	1,340	272	1,470
Comprehensive income ⁽¹⁾	\$ 997	\$ 2,541	\$ 5,390	\$ 6,369

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

<i>In millions</i>	December 31 2022	December 31 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 328	\$ 838
Restricted cash and cash equivalents	506	503
Accounts receivable	1,371	1,074
Material and supplies	692	589
Other current assets (Note 5)	320	422
<i>Total current assets</i>	3,217	3,426
Properties	43,537	41,178
Operating lease right-of-use assets	470	445
Pension asset	3,033	3,050
Intangible assets, goodwill and other	405	439
Total assets	\$ 50,662	\$ 48,538
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other	\$ 2,785	\$ 2,612
Current portion of long-term debt	1,057	508
<i>Total current liabilities</i>	3,842	3,120
Deferred income taxes	9,796	9,303
Other liabilities and deferred credits	441	427
Pension and other postretirement benefits	486	645
Long-term debt	14,372	11,977
Operating lease liabilities	341	322
Shareholders' equity		
Common shares	3,613	3,704
Common shares in Share Trusts	(170)	(103)
Additional paid-in capital	381	397
Accumulated other comprehensive loss ⁽¹⁾	(1,969)	(2,241)
Retained earnings ⁽¹⁾	19,529	20,987
<i>Total shareholders' equity</i>	21,384	22,744
Total liabilities and shareholders' equity	\$ 50,662	\$ 48,538

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

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	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at September 30, 2022</i>	677.9	0.9	\$ 3,625	\$ (88)	\$ 378	\$ (1,546)	\$ 19,631	\$ 22,000
Net income							1,420	1,420
Stock options exercised	0.2		23		(2)			21
Settlement of equity settled awards	0.1	(0.1)		5	(7)		1	(1)
Stock-based compensation expense and other					12		–	12
Repurchase of common shares	(6.6)		(35)				(1,030)	(1,065)
Share purchases by Share Trusts	(0.6)	0.6		(87)				(87)
Other comprehensive income						(423)		(423)
Dividends (\$0.7325 per share)							(493)	(493)
<i>Balance at December 31, 2022</i>	671.0	1.4	\$ 3,613	\$ (170)	\$ 381	\$ (1,969)	\$ 19,529	\$ 21,384

<i>In millions</i>	Number of common shares		Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2021</i> ⁽¹⁾	700.9	1.1	\$ 3,704	\$ (103)	\$ 397	\$ (2,241)	\$ 20,987	\$ 22,744
Net income							5,118	5,118
Stock options exercised	0.6		70		(9)			61
Settlement of equity settled awards	0.4	(0.4)		38	(84)		(22)	(68)
Stock-based compensation expense and other					77		(2)	75
Repurchase of common shares	(30.2)		(161)				(4,548)	(4,709)
Share purchases by Share Trusts	(0.7)	0.7		(105)				(105)
Other comprehensive income						272		272
Dividends (\$2.9300 per share)							(2,004)	(2,004)
<i>Balance at December 31, 2022</i>	671.0	1.4	\$ 3,613	\$ (170)	\$ 381	\$ (1,969)	\$ 19,529	\$ 21,384

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

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	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at September 30, 2021</i> ⁽¹⁾	707.3	1.1	\$ 3,727	\$ (104)	\$ 381	\$ (3,581)	\$ 21,246	\$ 21,669
Net income ⁽¹⁾							1,201	1,201
Stock options exercised	0.2		12		(1)			11
Settlement of equity settled awards	0.1	(0.1)		6	(9)		(3)	(6)
Stock-based compensation expense and other					26		–	26
Repurchase of common shares	(6.6)		(35)				(1,024)	(1,059)
Share purchases by Share Trusts	(0.1)	0.1		(5)				(5)
Other comprehensive loss ⁽¹⁾						1,340		1,340
Dividends (\$0.6150 per share)							(433)	(433)
<i>Balance at December 31, 2021</i> ⁽¹⁾	700.9	1.1	\$ 3,704	\$ (103)	\$ 397	\$ (2,241)	\$ 20,987	\$ 22,744

<i>In millions</i>	Number of common shares		Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2020</i> ⁽¹⁾	710.3	1.3	\$ 3,698	\$ (115)	\$ 379	\$ (3,711)	\$ 19,400	\$ 19,651
Net income ⁽¹⁾							4,899	4,899
Stock options exercised	0.7		60		(8)			52
Settlement of equity settled awards	0.4	(0.4)		38	(60)		(42)	(64)
Stock-based compensation expense and other					86		(2)	84
Repurchase of common shares	(10.3)		(54)				(1,528)	(1,582)
Share purchases by Share Trusts	(0.2)	0.2		(26)				(26)
Other comprehensive income ⁽¹⁾						1,470		1,470
Dividends (\$2.4600 per share)							(1,740)	(1,740)
<i>Balance at December 31, 2021</i> ⁽¹⁾	700.9	1.1	\$ 3,704	\$ (103)	\$ 397	\$ (2,241)	\$ 20,987	\$ 22,744

⁽¹⁾ In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

<i>In millions</i>	Three months ended		Year ended	
	December 31	2021	December 31	2021
	2022	2021	2022	2021
Operating activities				
Net income ⁽¹⁾	\$ 1,420	\$ 1,201	\$ 5,118	\$ 4,899
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	451	383	1,729	1,598
Pension income and funding ⁽¹⁾	(92)	(99)	(387)	(314)
Amortization of bridge financing and other fees (Note 4)	—	—	—	97
Deferred income taxes ⁽¹⁾	188	154	404	513
Recovery of loss on assets held for sale (Note 5)	—	—	—	(137)
Changes in operating assets and liabilities:				
Accounts receivable	126	135	(290)	(22)
Material and supplies	11	30	(82)	(7)
Accounts payable and other	272	281	(9)	141
Other current assets	(70)	(24)	(30)	35
Other operating activities, net	(34)	25	214	168
Net cash provided by operating activities	2,272	2,086	6,667	6,971
Investing activities				
Property additions	(920)	(914)	(2,750)	(2,891)
Advance for acquisition and other transaction-related costs (Note 4)	—	—	—	(908)
Refund of advance for acquisition (Note 4)	—	—	—	886
Proceeds from asset held for sale (Note 5)	—	—	273	—
Other investing activities, net	(17)	54	(33)	40
Net cash used in investing activities	(937)	(860)	(2,510)	(2,873)
Financing activities				
Issuance of debt	—	—	1,899	403
Repayment of debt	(344)	(19)	(383)	(861)
Change in commercial paper, net	602	(1,014)	563	66
Bridge financing and other fees (Note 4)	—	—	—	(97)
Settlement of foreign exchange forward contracts on debt	18	(9)	79	(8)
Issuance of common shares for stock options exercised	21	11	61	52
Withholding taxes remitted on the net settlement of equity settled awards	—	(5)	(44)	(37)
Repurchase of common shares	(1,122)	(1,096)	(4,709)	(1,582)
Purchase of common shares for settlement of equity settled awards	(1)	(2)	(24)	(27)
Purchase of common shares by Share Trusts	(87)	(5)	(105)	(26)
Dividends paid	(493)	(433)	(2,004)	(1,740)
Net cash used in financing activities	(1,406)	(2,572)	(4,667)	(3,857)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	(1)	—	3	—
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	(72)	(1,346)	(507)	241
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	906	2,687	1,341	1,100
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 834	\$ 1,341	\$ 834	\$ 1,341
Cash and cash equivalents, end of period	\$ 328	\$ 838	\$ 328	\$ 838
Restricted cash and cash equivalents, end of period	506	503	506	503
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 834	\$ 1,341	\$ 834	\$ 1,341
Supplemental cash flow information				
Interest paid	\$ (103)	\$ (79)	\$ (542)	\$ (512)
Income taxes paid	\$ (334)	\$ (177)	\$ (1,288)	\$ (759)

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been restated to conform to the change in methodology. See Note 2 – Change in accounting policy for additional information.

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 2021 Annual Consolidated Financial Statements, except as disclosed in *Note 2 – Change in accounting policy*, and should be read in conjunction with such statements and Notes thereto.

2 – Change in accounting policy

Change in accounting policy for determining net periodic pension cost (income)

Effective January 1, 2022, CN elected to change its accounting methodology for determining the market-related value of assets for the Company's defined benefit pension plans. The new accounting method changes the calculation of market-related value of pension plan assets used to determine net periodic benefit cost but has no impact on the annual funded status of the plans. The Company's previous methodology calculated market-related value for pensions whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments were recognized over a period of five years. The Company's new methodology will apply a corridor approach so that the market-related value does not result in a value that deviates excessively from its fair value. Specifically, the market-related value will not exceed 110% or be less than 90% of the fair value. This change establishes a corridor approach whereby the amount causing the market-related value to be outside of the 10% corridor will be recognized immediately in the market-related value of assets and will not be subject to the five year period of recognition. There is no change in the recognition approach for investment income.

CN considers the use of a calculated value with a corridor approach preferable to the previous calculated value approach as it results in a more current reflection of impacts of changes in value of these plan assets in the determination of net periodic benefit cost. The new accounting method to calculate the market-related value for pensions also aligns with the prevailing guidance issued by the Office of the Superintendent of Financial Institutions (OSFI) for the preparation of actuarial valuations for funding purposes for all registered Canadian defined benefit pension plans, whereby the Company has adopted and applied the updated OSFI guidance starting with the December 31, 2021 funding valuations that were filed during the second quarter of 2022.

The change in accounting method was applied retrospectively to all periods presented within CN's financial statements. The change did not impact Operating income or Net cash provided by operating activities but did impact the previously reported portion of Other components of net periodic benefit cost (income) for defined benefit pension plans along with related consolidated income items such as Net income and Earnings per share. Other impacts included related changes to previously reported consolidated Other comprehensive income (loss), Retained earnings, Accumulated other comprehensive income (loss), and associated line items within the determination of Net cash provided (used) by operating activities.

The election of this change impacted previously reported amounts included herein as indicated in the tables below:

Consolidated Statements of Income

<i>In millions, except per share data</i>	Three months ended December 31, 2021		Year ended December 31, 2021	
	Under prior method	As restated	Under prior method	As restated
Other components of net periodic benefit income	\$ 110	\$ 112	\$ 398	\$ 407
Income before income taxes	\$ 1,572	\$ 1,574	\$ 6,333	\$ 6,342
Income tax expense	\$ (373)	\$ (373)	\$ (1,441)	\$ (1,443)
Net income	\$ 1,199	\$ 1,201	\$ 4,892	\$ 4,899
Earnings per share:				
Basic	\$ 1.70	\$ 1.70	\$ 6.90	\$ 6.91
Diluted	\$ 1.69	\$ 1.70	\$ 6.89	\$ 6.90

Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Other Comprehensive Income

<i>In millions</i>	Three months ended December 31, 2021		Year ended December 31, 2021	
	Under prior method	As restated	Under prior method	As restated
Net income	\$ 1,199	\$ 1,201	\$ 4,892	\$ 4,899
Net change in pension and other postretirement benefit plans	\$ 1,858	\$ 1,844	\$ 2,075	\$ 2,066
Other comprehensive income before income taxes	\$ 1,840	\$ 1,826	\$ 2,023	\$ 2,014
Income tax expense	\$ (489)	\$ (486)	\$ (546)	\$ (544)
Other comprehensive loss	\$ 1,351	\$ 1,340	\$ 1,477	\$ 1,470
Comprehensive income	\$ 2,550	\$ 2,541	\$ 6,369	\$ 6,369

Consolidated Balance Sheets

<i>In millions</i>	As at December 31, 2021	
	Under prior method	As restated
Accumulated other comprehensive loss	\$ (1,995)	\$ (2,241)
Retained earnings	\$ 20,741	\$ 20,987

Consolidated Statements of Changes in Shareholders' Equity

<i>In millions</i>	Under prior method			As restated		
	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2020 ⁽¹⁾	\$ (3,472)	\$ 19,161	\$ 19,651	\$ (3,711)	\$ 19,400	\$ 19,651
Net income		\$ 4,892	\$ 4,892		\$ 4,899	\$ 4,899
Other comprehensive income	\$ 1,477		\$ 1,477	\$ 1,470		\$ 1,470
Balance at December 31, 2021	\$ (1,995)	\$ 20,741	\$ 22,744	\$ (2,241)	\$ 20,987	\$ 22,744
Balance at September 30, 2021	\$ (3,346)	\$ 21,002	\$ 21,660	\$ (3,581)	\$ 21,246	\$ 21,669
Net income		\$ 1,199	\$ 1,199		\$ 1,201	\$ 1,201
Other comprehensive income	\$ 1,351		\$ 1,351	\$ 1,340		\$ 1,340
Balance at December 31, 2021	\$ (1,995)	\$ 20,741	\$ 22,744	\$ (2,241)	\$ 20,987	\$ 22,744

(1) The cumulative restatement as of December 31, 2020, the beginning of the earliest period presented in the consolidated financial statements included herein, was a \$239 million increase to each of Retained earnings and Accumulated other comprehensive loss.

Consolidated Statements of Cash Flows

<i>In millions</i>	Three months ended December 31, 2021		Year ended December 31, 2021	
	Under prior method	As restated	Under prior method	As restated
Net income	\$ 1,199	\$ 1,201	\$ 4,892	\$ 4,899
Pension income and funding	\$ (97)	\$ (99)	\$ (305)	\$ (314)
Deferred income taxes	\$ 154	\$ 154	\$ 511	\$ 513

3 – Recent accounting pronouncements

The following recent Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB) came into effect during the current year and has been adopted by the Company:

ASU 2021-10 Disclosures by business entities about government assistance (Topic 832)

The ASU will increase the transparency of government assistance including the disclosure of types of assistance, an entity's accounting for the assistance, and the effect of the assistance on an entity's financial statements.

The Company adopted this standard in the fourth quarter of 2022 with an effective date of January 1, 2022. The adoption of this standard has been applied to existing government assistance transactions.

The following recent ASUs issued by the FASB were issued in 2020, were amended in 2021 as well as in 2022 and have not been adopted by the Company:

ASU 2020-04 and ASU 2022-06 Reference rate reform (Topic 848): Facilitation of the effects of reference rate reform on financial reporting and related amendments

USD London Interbank Offered Rate (LIBOR) and Canadian Dollar Offered Rate (CDOR) are benchmark interest rates referenced in a variety of agreements. The publication of certain LIBOR and CDOR rates were discontinued in January 2022 and May 2021, respectively, and the remaining rates are expected to be discontinued on June 30, 2023 and June 30, 2024, respectively. The recommended alternative reference rates for LIBOR and CDOR are the Secured Overnight Financing Rate (SOFR) and Canadian Overnight Repo Rate Average (CORRA), respectively.

The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity.

The ASU was effective starting on March 12, 2020, and is available to be adopted on a prospective basis no later than December 31, 2024, following the amendments of ASU 2022-06. The Company has a non-revolving credit facility that references LIBOR and CDOR for which the alternative reference rate is expected to be SOFR and CORRA, respectively. As at December 31, 2022, the Company has equipment loans made under the non-revolving credit facility referencing LIBOR with outstanding borrowings of US\$542 million. The equipment loans will be impacted by the discontinuance of the remaining LIBOR rates and the Company has fallback language that allows for the succession of LIBOR to SOFR.

The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements and related disclosures, and whether it will elect to apply any of the optional expedients and exceptions provided in the ASU.

Other recently issued ASUs required to be applied on or after December 31, 2022 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

4 – Acquisition

Terminated CN Kansas City Southern ("KCS") merger agreement

On September 15, 2021, KCS notified CN that it terminated the previously announced May 21, 2021 definitive merger agreement (the "CN Merger Agreement") under which CN would have acquired KCS.

On August 31, 2021, the Surface Transportation Board ("STB") rejected the joint motion by CN and KCS to approve a proposed voting trust agreement. On September 15, 2021, KCS and its Board of Directors announced that the revised acquisition proposal of September 12, 2021 from Canadian Pacific Railway Limited ("CP") constituted a "Company Superior Proposal" as defined in the CN Merger Agreement. Consequently, KCS entered into a waiver letter agreement with CN under which KCS agreed to terminate the CN Merger Agreement in order to enter into a merger agreement with CP. As a result, CN received from KCS a merger termination fee of US\$700 million (\$886 million), recorded in Merger termination fee within the Company's Consolidated Statements of Income and reflected in Operating activities within the Consolidated Statements of Cash Flows. In addition, KCS also refunded Brooklyn US Holdings, Inc. ("Holdco"), a wholly owned subsidiary of the Company, US\$700 million (\$886 million) that CN had previously paid as an advance to KCS of US\$700 million (\$845 million) in connection with KCS's payment of the termination fee to CP under KCS's original merger agreement with CP that was terminated on May 21, 2021. The refund received in the third quarter of 2021 was recorded in Transaction-related costs within the Consolidated Statements of Income and reflected in Investing activities within the Consolidated Statements of Cash flows. The US\$700 million (\$845 million) advance was recorded in Advance to KCS and other transaction costs within the Consolidated Balance Sheets in the second quarter of 2021 and was expensed to Transaction-related costs within the Consolidated Statements of Income in the third quarter of 2021. This advance, along with \$63 million of transaction-related costs paid in the second quarter of 2021, was reflected in Investing activities within the Consolidated Statements of Cash flows.

The Company incurred \$84 million of transaction-related costs for the year ended December 31, 2021 recorded in Transaction-related costs within the Consolidated Statements of Income. This included \$125 million of transaction-related costs, consisting of a \$76 million expense for costs previously capitalized to Advance to KCS and other transaction costs within the Consolidated Balance Sheets in the second quarter of 2021 in accordance with the expected application of equity method accounting and \$49 million of additional transaction-related costs incurred in the third quarter of 2021; partially offset by \$41 million of income generated as a result of the applicable foreign exchange rates prevailing at the time of payment of the US dollar denominated advance to KCS and receipt of the related refund.

The Company also paid \$97 million of bridge financing and other fees which were recorded in Interest expense within the Consolidated Statements of Income for the year ended December 31, 2021.

For the year ended December 31, 2021, after accounting for all direct and incremental expenses as well as income generated from the merger termination fee, CN recorded additional income of \$705 million (\$616 million after-tax), as a result of its strategic decision to bid for KCS.

5 – Assets held for sale

In the first quarter of 2021, CN entered into an agreement with a short line operator, for the sale of non-core lines in Wisconsin, Michigan and Ontario representing 850 miles that were classified as assets held for sale plus an additional 50 miles of track and roadway assets, resulting in a \$137 million recovery (\$102 million after-tax) of the \$486 million loss (\$363 million after-tax) recorded in the second quarter of 2020 to adjust the carrying amount of the track and roadway assets to their then estimated net selling price.

As at December 31, 2021, the carrying amount of assets held for sale of \$260 million was included in Other current assets in the Consolidated Balance Sheets.

In the fourth quarter of 2021, the STB approved the Company's agreement with the short line operator without condition and the transaction closed on January 28, 2022 and January 31, 2022 for the U.S. and Canadian assets, respectively. The resulting difference between the net selling price and what was estimated was insignificant.

6 – Subsequent event

Normal course issuer bid (NCIB)

On January 24, 2023, the Board of Directors of the Company approved a new NCIB, which allows for the repurchase of up to 32.0 million common shares between February 1, 2023 and January 31, 2024.