ESSENTIAL.

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2021 QUARTERLY REVIEW FOURTH QUARTER

North America's Railroad

CN Delivers Outstanding Fourth Quarter Results

Results show progress against Strategic Plan and confirm value of long-term capital investments for a resilient and modern railroad

MONTREAL, January 25, 2022 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the fourth quarter and year ended December 31, 2021. CN delivered solid operating and financial performance across the board, with adjusted diluted earnings per share (EPS) growing 20 per cent in the fourth quarter to C$1.71, and adjusted operating ratio improving to a fourth quarter record of 57.9 per cent. (1) For the same period, the Company reported diluted EPS growth of 18 per cent to C$1.69, while operating ratio improved to 58.3 per cent.

"I would like to thank our dedicated team of railroaders for delivering once again despite extreme weather and disruptive global supply chain issues. The last months of 2021 allowed us to tangibly demonstrate our resilience, our ability to make significant progress against the goals of our Strategic Plan, and what it means to build the premier railway of the 21st century. Our previous strategic investments in safety, technology, and capacity enabled us to continue delivering high-quality service to customers while generating profitable growth and enhanced value to shareholders. While I'll be retiring, I am excited to see what CN's world-class team will accomplish as they continue to lead the next transformation of the industry by delivering high-quality service to our customers and to the communities we serve, while driving sustainable returns to shareholders over the long-term."

– JJ Ruest, President and Chief Executive Officer, CN

Financial results highlights

Fourth-quarter 2021 compared to fourth-quarter 2020

- Revenues of C$3,753 million, an increase of C$97 million or three per cent.
- Record fourth quarter operating income of C$1,566 million, an increase of 11 per cent, and record fourth quarter adjusted operating income of C$1,579 million, an increase of 12 per cent. (1)
- Diluted EPS of C$1.69, an increase of 18 per cent, and adjusted diluted EPS of C$1.71, an increase of 20 per cent. (1)
- Operating ratio, defined as operating expenses as a percentage of revenues, of 58.3 per cent, an improvement of 3.1 points, and record fourth quarter adjusted operating ratio of 57.9 per cent, an improvement of 3.5 points. (1)

Full-year 2021 compared to full-year 2020

- Revenues of C$14,477 million, an increase of C$658 million or five per cent.
- Operating income of C$5,616 million, an increase of 18 per cent, and adjusted operating income of C$5,622 million, an increase of seven per cent. (1)
- Diluted EPS of C$6.89, an increase of 38 per cent, and record adjusted diluted EPS of C$5.94, an increase of 12 per cent. (1)
- Operating ratio and adjusted operating ratio of 61.2 per cent, an improvement of 4.2 points and 0.7 points respectively. (1)
- 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 C$705 million (C$616 million after-tax) as a result of its strategic decision to bid for KCS.
- Record free cash flow for the year ended December 31, 2021 of C$3,296 million compared to C$3,227 million for the same period in 2020. (1)
- Return on invested capital (ROIC) of 16.4 per cent, an increase of 3.7 points, and adjusted ROIC of 14.1 per cent, an increase of 0.7 points. (1)

Operating performance

Fourth-quarter 2021 compared to fourth-quarter 2020

Operating performance improved across most measures in the fourth quarter of 2021 when compared to the same period in 2020.

- Fuel efficiency improved by one per cent to a fourth quarter record of 0.876 US gallons of locomotive fuel consumed per 1,000 gross ton miles (GTMs).
- Injury frequency rate [3] improved by two per cent and the accident rate [4] increased by 22 per cent.
- Car velocity (car miles per day) decreased by three per cent.
- Through network train speed (mph) improved by six per cent.
- Through dwell (entire railroad, hours) improved by one per cent.
- Train length (in feet) remained flat.

Full-year 2021 compared to full-year 2020

Operating performance improved across most measures in 2021 when compared to 2020, specifically through network train speed, through dwell and car velocity, despite negative impacts from the polar vortex in February, the forest fires in Western Canada over the summer and the washouts in British Columbia caused by severe rain and flooding, resulting in a network shutdown in the region for three weeks in the fourth quarter ("B.C. washouts"). The Company capitalized on its prior year's strategic investments in its infrastructure and its continued focus on efficiency and network fluidity. In addition, the Company's fuel initiatives allowed it to achieve an all-time record fuel efficiency of 0.867.

- Fuel efficiency improved by three per cent to a record 0.867 US gallons of locomotive fuel consumed per 1,000 GTMs.
- Injury frequency rate [3] improved by 19 per cent to a record 1.33 injuries per 200,00 person hours.
- Accident rate [4] improved by three per cent.
- Car velocity (car miles per day) improved by five per cent.
- Through network train speed (mph) improved by four per cent.
- Through dwell (entire railroad, hours) improved by eight per cent.
- Train length (in feet) remained flat.

2022 outlook and shareholder distributions [2]

CN expects to deliver approximately 20 per cent adjusted diluted EPS growth, versus 2021 adjusted diluted EPS of C$5.94. [1] CN assumes total revenue ton miles (RTMs) in 2022 will increase in the low single-digit range versus 2021.

In 2022, CN plans to invest approximately 17 per cent of revenues in its capital program.

CN continues to target an operating ratio of approximately 57 per cent for 2022 as well as approximately 15 per cent of ROIC. [1]

CN is also targeting free cash flow of approximately C$4.0 billion in 2022 compared to C$3.3 billion in 2021. [1]

The Company's Board of Directors approved a 19 per cent increase to CN's 2022 quarterly cash dividend, effective for the first quarter of 2022. This is the 26th 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 42 million common shares, starting on February 1, 2022, and ending no later than January 31, 2023.

Fourth-quarter 2021 revenues, traffic volumes and expenses

Revenues for the quarter increased by three per cent to C$3,753 million, when compared to the same period in 2020. The increase in revenues was mainly attributable to higher applicable fuel surcharge rates, freight rate increases and an increase in intermodal ancillary services; partly offset by lower volumes of Canadian grain in terms of RTMs compared to record volumes in the fourth quarter of 2020, the impact of the B.C. washouts and the negative translation impact of a stronger Canadian dollar.

RTMs, measuring the weight and distance of freight transported by CN, declined by 11 per cent. Freight revenue per RTM increased by 14 per cent, mainly driven by a significant decrease in the average length of haul, higher applicable fuel surcharge rates and freight rate increases; partly offset by the negative translation impact of a stronger Canadian dollar.

Operating expenses for the quarter decreased by three per cent to C$2,187 million, when compared to the same period in 2020. The decrease was mainly due to lower average headcount due to cost reduction initiatives and lower volumes, as well as the positive translation impact of a stronger Canadian dollar; partly offset by higher fuel costs.

Full-year 2021 revenues, traffic volumes and expenses

Revenues for 2021 increased by five per cent to C$14,477 million, when compared to 2020. The increase in revenues was mainly attributable to freight rate increases, higher applicable fuel surcharge rates and an increase in intermodal ancillary services; partly offset by the negative translation impact of a stronger Canadian dollar and lower volumes of Canadian grain in terms of RTMs compared to record volumes in 2020.

RTMs increased by one per cent despite the unfavorable impact of the ongoing supply chain challenges, the polar vortex in February, the forest fires and drought in Western Canada over the summer and the B.C. washouts in the fourth quarter of 2021. Freight revenue per RTM increased by four per cent, mainly driven by a decrease in the average length of haul, freight rate increases and higher applicable fuel surcharge rates; partly offset by the negative translation impact of a stronger Canadian dollar.

Operating expenses decreased by two per cent to C$8,861 million, mainly due to the C$137 million recovery recorded in the first quarter of 2021 related to the C$486 million loss on assets held for sale recorded in the second quarter of 2020, as well as the positive translation impact of a stronger Canadian dollar; partly offset by higher fuel costs due to rising fuel prices, higher incentive compensation and C$84 million of transaction-related costs resulting from the terminated CN Merger Agreement with KCS.

(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, of adjusted net income, adjusted earnings per share, adjusted operating income and adjusted operating ratio (referred to as adjusted performance measures), free cash flow, 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) , ROIC outlook (2) and free cash flow outlook (2) excludes the expected impact of certain income and expense items, which are expected to be comparable adjustments to those made to the historical adjusted diluted EPS, ROIC and free cash flow. However, management cannot individually quantify on a forward-looking basis the impact of these items on its adjusted diluted EPS, ROIC or free cash flow because these items, which could be significant, are difficult to predict and may be highly variable. As a result, CN does not provide a corresponding GAAP measure for, or reconciliation to, its adjusted diluted EPS outlook, its ROIC outlook or its free cash flow outlook.

(2) Forward-Looking Statements

Certain statements included in this news release constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws, 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.

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, the duration and effects of the COVID-19 pandemic; general economic and business conditions, particularly in the context of the COVID-19 pandemic; 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 be made to Management's Discussion and Analysis in CN's annual and interim reports, Annual Information Form and Form 40-F, filed with Canadian and U.S. securities regulators and available on CN's website, for a description of major risk factors.

Forward-looking statements reflect information as of the date on which they are made. CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

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

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

2022 key assumptions

CN has made a number of economic and market assumptions in preparing its 2022 outlook. The Company assumes that North American industrial production for the year will increase in the mid single-digit range, and now assumes U.S. housing starts of approximately 1.6 million units (compared to its October 19, 2021 assumption that it would be approximately 1.57 million units) and now assumes U.S. motor vehicle sales of approximately 15.5 million units (compared to its October 19, 2021 assumption that it would be approximately 16.9 million units). For the 2021/2022 crop year, the grain crop in Canada was below its three-year average and the U.S. grain crop was in line with its three-year average. The Company assumes that the 2022/2023 grain crops in both Canada and the U.S. will be in line with their respective three-year averages. CN assumes total RTMs in 2022 will increase in the low single-digit range versus 2021. CN assumes continued pricing above rail inflation. CN assumes that in 2022, the value of the Canadian dollar in U.S. currency will be approximately $0.80, and now assumes that in 2022 the average price of crude oil (West Texas Intermediate) will be approximately in the US$65 - US$70 range per barrel (compared to its October 19, 2021 assumption that it would be approximately US$65 per barrel). In 2022, CN plans to invest approximately 17% of revenues in its capital program.

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. As the only railroad connecting Canada's Eastern and Western coasts with the U.S. South through a 19,500-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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Selected Railroad Statistics – unaudited

	Three months ended December 31		Year ended December 31	
	2021	2020	**2021**	2020
Financial measures				
Key financial performance indicators (1)				
Total revenues *($ millions)*	**3,753**	3,656	**14,477**	13,819
Freight revenues *($ millions)*	**3,586**	3,507	**13,888**	13,218
Operating income *($ millions)*	**1,566**	1,411	**5,616**	4,777
Adjusted operating income *($ millions)* (2)(3)	**1,579**	1,411	**5,622**	5,263
Net income *($ millions)*	**1,199**	1,021	**4,892**	3,562
Adjusted net income *($ millions)* (2)(3)	**1,209**	1,021	**4,218**	3,784
Diluted earnings per share *($)*	**1.69**	1.43	**6.89**	5.00
Adjusted diluted earnings per share *($)* (2)(3)	**1.71**	1.43	**5.94**	5.31
Free cash flow *($ millions)* (2)(4)	**1,262**	1,140	**3,296**	3,227
Gross property additions *($ millions)*	**920**	855	**2,897**	2,863
Share repurchases *($ millions)*	**1,059**	—	**1,582**	379
Dividends per share *($)*	**0.615**	0.575	**2.460**	2.300
Financial ratio				
Operating ratio *(%)* (5)	**58.3**	61.4	**61.2**	65.4
Adjusted operating ratio *(%)* (2)(3)	**57.9**	61.4	**61.2**	61.9
Operational measures (6)				
Statistical operating data				
Gross ton miles (GTMs) *(millions)*	**110,196**	125,310	**458,401**	455,368
Revenue ton miles (RTMs) *(millions)*	**56,563**	63,207	**233,138**	230,390
Carloads *(thousands)*	**1,374**	1,526	**5,701**	5,595
Route miles *(includes Canada and the U.S.)*	**19,500**	19,500	**19,500**	19,500
Employees *(end of period)*	**22,604**	24,381	**22,604**	24,381
Employees *(average for the period)*	**23,107**	24,272	**24,084**	23,786
Key operating measures				
Freight revenue per RTM *(cents)*	**6.34**	5.55	**5.96**	5.74
Freight revenue per carload *($)*	**2,610**	2,298	**2,436**	2,362
GTMs per average number of employees *(thousands)*	**4,769**	5,163	**19,033**	19,144
Operating expenses per GTM *(cents)*	**1.98**	1.79	**1.93**	1.99
Labor and fringe benefits expense per GTM *(cents)*	**0.61**	0.60	**0.63**	0.60
Diesel fuel consumed *(US gallons in millions)*	**96.5**	110.9	**397.6**	407.2
Average fuel price *($/US gallon)*	**3.71**	2.37	**3.28**	2.42
Fuel efficiency *(US gallons of locomotive fuel consumed per 1,000 GTMs)*	**0.876**	0.885	**0.867**	0.894
Train weight *(tons)*	**9,665**	9,397	**9,658**	9,501
Train length *(feet)*	**8,491**	8,514	**8,559**	8,572
Car velocity *(car miles per day)*	**189**	195	**195**	185
Through dwell *(entire railroad, hours)*	**7.9**	8.0	**7.9**	8.6
Through network train speed *(miles per hour)*	**19.5**	18.4	**19.2**	18.5
Locomotive utilization *(trailing GTMs per total horsepower)*	**194**	202	**198**	196
Safety indicators (7)				
Injury frequency rate *(per 200,000 person hours)*	**1.29**	1.31	**1.33**	1.64
Accident rate *(per million train miles)*	**2.06**	1.69	**1.82**	1.87

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

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

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

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

Supplementary Information – unaudited

	Three months ended December 31				Year ended December 31			
	2021	2020	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) [(1)]	**2021**	2020	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) [(1)]
Revenues *($ millions)* [(2)]								
Petroleum and chemicals	**755**	664	14%	16%	**2,816**	2,631	7%	12%
Metals and minerals	**393**	354	11%	14%	**1,548**	1,409	10%	16%
Forest products	**435**	433	—%	3%	**1,740**	1,700	2%	8%
Coal	**165**	126	31%	33%	**618**	527	17%	20%
Grain and fertilizers	**643**	742	(13%)	(12%)	**2,475**	2,609	(5%)	(2%)
Intermodal	**1,049**	1,036	1%	3%	**4,115**	3,751	10%	12%
Automotive	**146**	152	(4%)	(1%)	**576**	591	(3%)	3%
Total freight revenues	**3,586**	3,507	2%	4%	**13,888**	13,218	5%	9%
Other revenues	**167**	149	12%	15%	**589**	601	(2%)	3%
Total revenues	**3,753**	3,656	3%	5%	**14,477**	13,819	5%	9%
Revenue ton miles (RTMs) *(millions)* [(3)]								
Petroleum and chemicals	**10,955**	11,638	(6%)	(6%)	**42,436**	43,556	(3%)	(3%)
Metals and minerals	**6,617**	5,785	14%	14%	**26,743**	21,561	24%	24%
Forest products	**6,087**	6,699	(9%)	(9%)	**25,948**	25,602	1%	1%
Coal	**4,608**	4,186	10%	10%	**18,471**	16,173	14%	14%
Grain and fertilizers	**14,196**	17,910	(21%)	(21%)	**58,733**	61,736	(5%)	(5%)
Intermodal	**13,529**	16,330	(17%)	(17%)	**58,412**	59,165	(1%)	(1%)
Automotive	**571**	659	(13%)	(13%)	**2,395**	2,597	(8%)	(8%)
Total RTMs	**56,563**	63,207	(11%)	(11%)	**233,138**	230,390	1%	1%
Freight revenue / RTM *(cents)* [(2) (3)]								
Petroleum and chemicals	**6.89**	5.71	21%	23%	**6.64**	6.04	10%	15%
Metals and minerals	**5.94**	6.12	(3%)	—%	**5.79**	6.53	(11%)	(7%)
Forest products	**7.15**	6.46	11%	14%	**6.71**	6.64	1%	6%
Coal	**3.58**	3.01	19%	20%	**3.35**	3.26	3%	6%
Grain and fertilizers	**4.53**	4.14	9%	11%	**4.21**	4.23	—%	3%
Intermodal	**7.75**	6.34	22%	24%	**7.04**	6.34	11%	14%
Automotive	**25.57**	23.07	11%	15%	**24.05**	22.76	6%	12%
Total freight revenue / RTM	**6.34**	5.55	14%	17%	**5.96**	5.74	4%	8%
Carloads *(thousands)* [(3)]								
Petroleum and chemicals	**153**	155	(1%)	(1%)	**596**	597	—%	—%
Metals and minerals	**239**	241	(1%)	(1%)	**969**	935	4%	4%
Forest products	**81**	87	(7%)	(7%)	**339**	342	(1%)	(1%)
Coal	**101**	73	38%	38%	**379**	289	31%	31%
Grain and fertilizers	**159**	189	(16%)	(16%)	**628**	663	(5%)	(5%)
Intermodal	**595**	731	(19%)	(19%)	**2,611**	2,582	1%	1%
Automotive	**46**	50	(8%)	(8%)	**179**	187	(4%)	(4%)
Total carloads	**1,374**	1,526	(10%)	(10%)	**5,701**	5,595	2%	2%
Freight revenue / carload *($)* [(2) (3)]								
Petroleum and chemicals	**4,935**	4,284	15%	18%	**4,725**	4,407	7%	12%
Metals and minerals	**1,644**	1,469	12%	15%	**1,598**	1,507	6%	12%
Forest products	**5,370**	4,977	8%	11%	**5,133**	4,971	3%	9%
Coal	**1,634**	1,726	(5%)	(4%)	**1,631**	1,824	(11%)	(8%)
Grain and fertilizers	**4,044**	3,926	3%	5%	**3,941**	3,935	—%	3%
Intermodal	**1,763**	1,417	24%	26%	**1,576**	1,453	8%	11%
Automotive	**3,174**	3,040	4%	8%	**3,218**	3,160	2%	8%
Total freight revenue / carload	**2,610**	2,298	14%	16%	**2,436**	2,362	3%	7%

(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 earnings before interest, income taxes, depreciation and amortization (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 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 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, 2021, the Company's adjusted net income was $1,209 million, or $1.71 per diluted share, and $4,218 million, or $5.94 per diluted share, respectively. 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 ($0.02 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 $65 million, or $60 million after-tax ($0.08 per diluted share) recorded in the third quarter and $32 million, or $24 million after-tax ($0.03 per diluted share) 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.

For the year ended December 31, 2020, the Company reported adjusted net income of $3,784 million, or $5.31 per diluted share, which excludes a loss of $486 million, or $363 million after-tax ($0.51 per diluted share) in the second quarter, resulting from the Company's decision to market for sale for on-going rail operations, certain non-core lines in Wisconsin, Michigan and Ontario, and a current income tax recovery of $141 million ($0.20 per diluted share) in the first quarter resulting from the enactment of the *Coronavirus Aid, Relief, and Economic Security* (CARES) *Act*, a U.S. tax-and-spending package aimed at providing additional stimulus to address the economic impact of the COVID-19 pandemic.

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, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

	Three months ended December 31		Year ended December 31	
In millions, except per share data	**2021**	2020	**2021**	2020
Net income	**$ 1,199**	$ 1,021	**$ 4,892**	$ 3,562
Adjustments:				
Operating expense adjustments:				
Workforce reduction program	**—**	—	**39**	—
Advisory fees related to shareholder matters	**13**	—	**20**	—
Loss (recovery) on assets held for sale	**—**	—	**(137)**	486
Transaction-related costs	**—**	—	**84**	—
Non-operating expense adjustments:				
Amortization of bridge financing and other fees	**—**	—	**97**	—
Merger termination fee	**—**	—	**(886)**	—
Tax adjustments:				
Tax effect of adjustments (1)	**(3)**	—	**109**	(123)
Tax law changes and rate enactments	**—**	—	**—**	(141)
Total adjustments	**10**	—	**(674)**	222
Adjusted net income	**$ 1,209**	$ 1,021	**$ 4,218**	$ 3,784
Diluted earnings per share	**$ 1.69**	$ 1.43	**$ 6.89**	$ 5.00
Impact of adjustments, per share	**0.02**	—	**(0.95)**	0.31
Adjusted diluted earnings per share	**$ 1.71**	$ 1.43	**$ 5.94**	$ 5.31

(1) 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, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

	Three months ended December 31		Year ended December 31	
In millions, except percentages	**2021**	2020	**2021**	2020
Operating income	**$ 1,566**	$ 1,411	**$ 5,616**	$ 4,777
Operating expense adjustments:				
Workforce reduction program	**—**	—	**39**	—
Advisory fees related to shareholder matters	**13**	—	**20**	—
Loss (recovery) on assets held for sale	**—**	—	**(137)**	486
Transaction-related costs	**—**	—	**84**	—
Total operating expense adjustments	**13**	—	**6**	486
Adjusted operating income	**$ 1,579**	$ 1,411	**$ 5,622**	$ 5,263
Operating expenses	**$ 2,187**	$ 2,245	**$ 8,861**	$ 9,042
Total operating expense adjustments	**(13)**	—	**(6)**	(486)
Adjusted operating expenses	**$ 2,174**	$ 2,245	**$ 8,855**	$ 8,556
Operating ratio	**58.3 %**	61.4 %	**61.2 %**	65.4 %
Impact of adjustments	**(0.4)%**	— %	**— %**	(3.5)%
Adjusted operating ratio	**57.9 %**	61.4 %	**61.2 %**	61.9 %

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 $1.26 and $1.25 per US$1.00 for the three months and year ended December 31, 2021, respectively, and $1.30 and $1.34 per US$1.00 for the three months and year ended December 31, 2020, respectively.

On a constant currency basis, the Company's Net income for the three months and year ended December 31, 2021 would have been higher by $27 million ($0.04 per diluted share) and higher by $166 million ($0.23 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, 2021:

	Three months ended December 31				Year ended December 31			
In millions, except per share data	**2021**	Constant currency impact	2020	% Change at constant currency Fav (Unfav)	**2021**	Constant currency impact	2020	% Change at constant currency Fav (Unfav)
Revenues								
Petroleum and chemicals	**$ 755**	$ 16	$ 664	16%	**$ 2,816**	$ 128	$ 2,631	12%
Metals and minerals	**393**	11	354	14%	**1,548**	83	1,409	16%
Forest products	**435**	12	433	3%	**1,740**	93	1,700	8%
Coal	**165**	2	126	33%	**618**	17	527	20%
Grain and fertilizers	**643**	12	742	(12%)	**2,475**	80	2,609	(2%)
Intermodal	**1,049**	14	1,036	3%	**4,115**	95	3,751	12%
Automotive	**146**	5	152	(1%)	**576**	32	591	3%
Total freight revenues	**3,586**	72	3,507	4%	**13,888**	528	13,218	9%
Other revenues	**167**	5	149	15%	**589**	29	601	3%
Total revenues	**3,753**	77	3,656	5%	**14,477**	557	13,819	9%
Operating expenses								
Labor and fringe benefits	**674**	8	755	10%	**2,879**	65	2,723	(8%)
Purchased services and material	**504**	7	565	10%	**2,082**	60	2,152	—%
Fuel	**419**	13	303	(43%)	**1,513**	94	1,152	(39%)
Depreciation and amortization	**383**	5	402	3%	**1,598**	44	1,589	(3%)
Equipment rents	**82**	2	97	13%	**336**	19	432	18%
Casualty and other	**125**	3	123	(4%)	**506**	27	508	(5%)
Loss (recovery) on assets held for sale	**—**	—	—	N/A	**(137)**	(12)	486	131%
Transaction-related costs	**—**	—	—	N/A	**84**	47	—	N/A
Total operating expenses	**2,187**	38	2,245	1%	**8,861**	344	9,042	(2%)
Operating income	**1,566**	39	1,411	14%	**5,616**	213	4,777	22%
Interest expense	**(125)**	(3)	(134)	4%	**(610)**	(35)	(554)	(16%)
Other components of net periodic benefit income	**110**	—	78	41%	**398**	—	315	26%
Merger termination fee	**—**	—	—	N/A	**886**	39	—	N/A
Other income	**21**	—	—	N/A	**43**	4	6	683%
Income before income taxes	**1,572**	36	1,355	19%	**6,333**	221	4,544	44%
Income tax expense	**(373)**	(9)	(334)	(14%)	**(1,441)**	(55)	(982)	(52%)
Net income	**$ 1,199**	$ 27	$ 1,021	20%	**$ 4,892**	$ 166	$ 3,562	42%
Diluted earnings per share	**$ 1.69**	$ 0.04	$ 1.43	21%	**$ 6.89**	$ 0.23	$ 5.00	42%

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 business acquisitions and merger transaction-related payments and cash receipts, 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, 2021 and 2020, to the non-GAAP free cash flow presented herein:

	Three months ended December 31		Year ended December 31	
In millions	**2021**	2020	**2021**	2020
Net cash provided by operating activities	**$ 2,086**	$ 2,008	**$ 6,971**	$ 6,165
Net cash used in investing activities	**(860)**	(868)	**(2,873)**	(2,946)
Net cash provided before financing activities	**1,226**	1,140	**4,098**	3,219
Adjustments:				
Transaction-related costs (1)	**36**	—	**125**	—
Advance for acquisition (2)	**—**	—	**845**	—
Refund of advance for acquisition	**—**	—	**(886)**	—
Merger termination fee	**—**	—	**(886)**	—
Acquisitions, net of cash acquired (3)	**—**	—	**—**	8
Total adjustments	**36**	—	**(802)**	8
Free cash flow	**$ 1,262**	$ 1,140	**$ 3,296**	$ 3,227

(1) Relates to transaction-related costs of $125 million paid. See Note 3 - Acquisitions, Terminated CN KCS merger agreement, to CN's unaudited Interim Consolidated Financial Statements for additional information.

(2) Relates to the advance paid to KCS of US$700 million ($845 million). See Note 3 - Acquisitions, Terminated CN KCS merger agreement, to CN's unaudited Interim Consolidated Financial Statements for additional information.

(3) Relates to the acquisition of H&R Transport Limited ("H&R"). See Note 3 - Business combinations to the Company's 2020 Annual 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, 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, 2021 and 2020, respectively, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

In millions, unless otherwise indicated	*As at and for the year ended December 31,*	**2021**	2020
Debt		**$ 12,485**	$ 12,906
Adjustments:			
Operating lease liabilities, including current portion (1)		**430**	418
Pension plans in deficiency (2)		**447**	553
Adjusted debt		**$ 13,362**	$ 13,877
Net income		**$ 4,892**	$ 3,562
Interest expense		**610**	554
Income tax expense		**1,441**	982
Depreciation and amortization		**1,598**	1,589
Operating lease cost (3)		**131**	143
Other components of net periodic benefit income		**(398)**	(315)
Other income		**(43)**	(6)
Adjustments:			
Workforce reduction program (4)		**39**	—
Advisory fees related to shareholder matters (5)		**20**	—
Loss (recovery) on assets held for sale		**(137)**	486
Transaction-related costs		**84**	—
Merger termination fee		**(886)**	—
Adjusted EBITDA		**$ 7,351**	$ 6,995
Adjusted debt-to-adjusted EBITDA multiple (times)		**1.82**	1.98

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

(4) 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.

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

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:

In millions, except percentage	*As at and for the year ended December 31,*	**2021**	2020
Net income		**$ 4,892**	$ 3,562
Interest expense		**610**	554
Tax on interest expense (1)		**(139)**	(120)
Return		**$ 5,363**	$ 3,996
Average total shareholders' equity		**$ 21,198**	$ 18,846
Average long-term debt		**11,987**	11,931
Average current portion of long-term debt		**709**	1,420
Less: Average cash, cash equivalents, restricted cash and restricted cash equivalents		**(1,221)**	(844)
Average invested capital		**$ 32,673**	$ 31,353
ROIC		**16.4%**	12.7%
Adjusted net income (2)		**$ 4,218**	$ 3,784
Interest expense		**610**	554
Less: Amortization of bridge financing and other fees (3)		**(97)**	—
Tax on interest expense less amortization of bridge financing and other fees (4)		**(123)**	(137)
Adjusted return		**$ 4,608**	$ 4,201
Average invested capital		**$ 32,673**	$ 31,353
Adjusted ROIC		**14.1%**	13.4%

(1) 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 2021 was 22.8% (2020 - 21.6%).

(2) 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.

(3) Relates to amortization of bridge financing and other fees resulting from the KCS transaction, recorded in Interest expense within the Consolidated Statements of Income.

(4) 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 2021 was 24.0% (2020 - 24.8%).

Consolidated Statements of Income – unaudited

In millions, except per share data	Three months ended December 31 2021	Three months ended December 31 2020	Year ended December 31 2021	Year ended December 31 2020
Revenues	**$ 3,753**	$ 3,656	**$ 14,477**	$ 13,819
Operating expenses				
Labor and fringe benefits	**674**	755	**2,879**	2,723
Purchased services and material	**504**	565	**2,082**	2,152
Fuel	**419**	303	**1,513**	1,152
Depreciation and amortization	**383**	402	**1,598**	1,589
Equipment rents	**82**	97	**336**	432
Casualty and other	**125**	123	**506**	508
Loss (recovery) on assets held for sale *(Note 4)*	**—**	—	**(137)**	486
Transaction-related costs *(Note 3)*	**—**	—	**84**	—
Total operating expenses	**2,187**	2,245	**8,861**	9,042
Operating income	**1,566**	1,411	**5,616**	4,777
Interest expense	**(125)**	(134)	**(610)**	(554)
Other components of net periodic benefit income	**110**	78	**398**	315
Merger termination fee *(Note 3)*	**—**	—	**886**	—
Other income	**21**	—	**43**	6
Income before income taxes	**1,572**	1,355	**6,333**	4,544
Income tax expense	**(373)**	(334)	**(1,441)**	(982)
Net income	**$ 1,199**	$ 1,021	**$ 4,892**	$ 3,562
Earnings per share				
Basic	**$ 1.70**	$ 1.44	**$ 6.90**	$ 5.01
Diluted	**$ 1.69**	$ 1.43	**$ 6.89**	$ 5.00
Weighted-average number of shares				
Basic	**705.3**	711.2	**708.5**	711.3
Diluted	**707.4**	713.2	**710.3**	713.0
Dividends declared per share	**$ 0.615**	$ 0.575	**$ 2.460**	$ 2.300

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

In millions	Three months ended December 31 2021	Three months ended December 31 2020	Year ended December 31 2021	Year ended December 31 2020
Net income	**$ 1,199**	$ 1,021	**$ 4,892**	$ 3,562
Other comprehensive income (loss)				
Net loss on foreign currency translation	**(18)**	(228)	**(52)**	(82)
Net change in pension and other postretirement benefit plans	**1,858**	(20)	**2,075**	160
Other comprehensive income (loss) before income taxes	**1,840**	(248)	**2,023**	78
Income tax expense	**(489)**	(44)	**(546)**	(67)
Other comprehensive income (loss)	**1,351**	(292)	**1,477**	11
Comprehensive income	**$ 2,550**	$ 729	**$ 6,369**	$ 3,573

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

In millions		**December 31 2021**		December 31 2020
Assets				
Current assets				
Cash and cash equivalents	**$**	**838**	$	569
Restricted cash and cash equivalents		**503**		531
Accounts receivable		**1,074**		1,054
Material and supplies		**589**		583
Other current assets *(Note 4)*		**422**		365
Total current assets		**3,426**		3,102
Properties		**41,178**		40,069
Operating lease right-of-use assets		**445**		435
Pension asset		**3,050**		777
Intangible assets, goodwill and other		**439**		421
Total assets	**$**	**48,538**	$	44,804
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and other	**$**	**2,612**	$	2,364
Current portion of long-term debt		**508**		910
Total current liabilities		**3,120**		3,274
Deferred income taxes		**9,303**		8,271
Other liabilities and deferred credits		**427**		534
Pension and other postretirement benefits		**645**		767
Long-term debt		**11,977**		11,996
Operating lease liabilities		**322**		311
Shareholders' equity				
Common shares		**3,704**		3,698
Common shares in Share Trusts		**(103)**		(115)
Additional paid-in capital		**397**		379
Accumulated other comprehensive loss		**(1,995)**		(3,472)
Retained earnings		**20,741**		19,161
Total shareholders' equity		**22,744**		19,651
Total liabilities and shareholders' equity	**$**	**48,538**	$	44,804

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

In millions	Number of common shares Outstanding	Number of common shares Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at September 30, 2021	707.3	1.1	$ 3,727	$ (104)	$ 381	$ (3,346)	$ 21,002	$ 21,660
Net income							1,199	1,199
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 income						1,351		1,351
Dividends ($0.615 per share)							(433)	(433)
Balance at December 31, 2021	**700.9**	**1.1**	**$ 3,704**	**$ (103)**	**$ 397**	**$ (1,995)**	**$ 20,741**	**$ 22,744**

In millions	Number of common shares Outstanding	Number of common shares Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2020	710.3	1.3	$ 3,698	$ (115)	$ 379	$ (3,472)	$ 19,161	$ 19,651
Net income							4,892	4,892
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						1,477		1,477
Dividends ($2.460 per share)							(1,740)	(1,740)
Balance at December 31, 2021	**700.9**	**1.1**	**$ 3,704**	**$ (103)**	**$ 397**	**$ (1,995)**	**$ 20,741**	**$ 22,744**

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

In millions	Number of common shares: Outstanding	Number of common shares: Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at September 30, 2020	710.2	1.3	$ 3,692	$ (115)	$ 367	$ (3,180)	$ 18,549	$ 19,313
Net income							1,021	1,021
Stock options exercised	0.1		6		(1)			5
Settlement of equity settled awards	—	—		6	(6)		—	—
Stock-based compensation expense and other					19		—	19
Share purchases by Share Trusts	—	—		(6)				(6)
Other comprehensive loss						(292)		(292)
Dividends ($0.575 per share)							(409)	(409)
Balance at December 31, 2020	710.3	1.3	$ 3,698	$ (115)	$ 379	$ (3,472)	$ 19,161	$ 19,651

In millions	Number of common shares: Outstanding	Number of common shares: Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2019	712.3	1.8	$ 3,650	$ (163)	$ 403	$ (3,483)	$ 17,634	$ 18,041
Net income							3,562	3,562
Stock options exercised	0.8		65		(9)			56
Settlement of equity settled awards	0.6	(0.6)		62	(82)		(37)	(57)
Stock-based compensation expense and other					67		(2)	65
Repurchase of common shares	(3.3)		(17)				(362)	(379)
Share purchases by Share Trusts	(0.1)	0.1		(14)				(14)
Other comprehensive income						11		11
Dividends ($2.300 per share)							(1,634)	(1,634)
Balance at December 31, 2020	710.3	1.3	$ 3,698	$ (115)	$ 379	$ (3,472)	$ 19,161	$ 19,651

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

In millions	Three months ended December 31 **2021**	2020	Year ended December 31 **2021**	2020
Operating activities				
Net income	**$ 1,199**	$ 1,021	**$ 4,892**	$ 3,562
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**383**	402	**1,598**	1,589
Pension income and funding	**(97)**	(56)	**(305)**	(234)
Amortization of bridge financing and other fees *(Note 3)*	**—**	—	**97**	—
Deferred income taxes	**154**	115	**511**	487
Loss (recovery) on assets held for sale *(Note 4)*	**—**	—	**(137)**	486
Changes in operating assets and liabilities:				
Accounts receivable	**135**	68	**(22)**	158
Material and supplies	**30**	20	**(7)**	20
Accounts payable and other	**281**	451	**141**	(49)
Other current assets	**(24)**	(25)	**35**	—
Other operating activities, net	**25**	12	**168**	146
Net cash provided by operating activities	**2,086**	2,008	**6,971**	6,165
Investing activities				
Property additions	**(914)**	(855)	**(2,891)**	(2,863)
Advance for acquisition and other transaction-related costs *(Note 3)*	**—**	—	**(908)**	—
Refund of advance for acquisition *(Note 3)*	**—**	—	**886**	—
Acquisitions, net of cash acquired *(Note 3)*	**—**	—	**—**	(8)
Other investing activities, net	**54**	(13)	**40**	(75)
Net cash used in investing activities	**(860)**	(868)	**(2,873)**	(2,946)
Financing activities				
Issuance of debt	**—**	32	**403**	1,789
Repayment of debt	**(19)**	(30)	**(861)**	(1,221)
Change in commercial paper, net	**(1,014)**	(434)	**66**	(1,273)
Bridge financing and other fees *(Note 3)*	**—**	—	**(97)**	—
Settlement of foreign exchange forward contracts on debt	**(9)**	(13)	**(8)**	26
Issuance of common shares for stock options exercised	**11**	5	**52**	56
Withholding taxes remitted on the net settlement of equity settled awards	**(5)**	—	**(37)**	(48)
Repurchase of common shares	**(1,096)**	—	**(1,582)**	(379)
Purchase of common shares for settlement of equity settled awards	**(2)**	—	**(27)**	(9)
Purchase of common shares by Share Trusts	**(5)**	(6)	**(26)**	(14)
Dividends paid	**(433)**	(409)	**(1,740)**	(1,634)
Net cash used in financing activities	**(2,572)**	(855)	**(3,857)**	(2,707)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	**—**	(1)	**—**	—
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	**(1,346)**	284	**241**	512
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**2,687**	816	**1,100**	588
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,341**	$ 1,100	**$ 1,341**	$ 1,100
Cash and cash equivalents, end of period	**$ 838**	$ 569	**$ 838**	$ 569
Restricted cash and cash equivalents, end of period	**503**	531	**503**	531
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,341**	$ 1,100	**$ 1,341**	$ 1,100
Supplemental cash flow information				
Interest paid	**$ (79)**	$ (90)	**$ (512)**	$ (551)
Income taxes refunded (paid)	**$ (177)**	$ 7	**$ (759)**	$ (353)

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 2020 Annual Consolidated Financial Statements and should be read in conjunction with such statements and Notes thereto.

2 – Recent accounting pronouncements

The following recent Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB) came into effect in 2020, was amended in 2021 and has not been adopted by the Company:

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

London Interbank Offered Rate (LIBOR) is a benchmark interest rate referenced in a variety of agreements that are used by all types of entities. The administrator of LIBOR has ceased the publication of one week and two month USD LIBOR rates on January 1, 2022 and intends to discontinue the remaining USD LIBOR rates immediately following the LIBOR publication on June 30, 2023.

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, 2022, when the reference rate replacement activity is expected to be completed. The Company currently has outstanding loans referencing LIBOR, that were not impacted by the administrator of LIBOR ceasing publication of one week and two month USD LIBOR rates, totaling US$572 million that would be affected by the provisions of this ASU. The Company also has a revolving credit facility and an accounts receivable securitization program that reference LIBOR. The Company had no outstanding borrowing under these credit facilities as at December 31, 2021. The Company has fallback language to allow for the succession of a clearly defined alternative reference rate within the contracts that reference LIBOR. 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, 2021 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

3 – Acquisitions

Terminated CN KCS merger agreement

On September 15, 2021, Kansas City Southern (“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 for an implied total transaction value of US$33.6 billion, including the assumption of US$3.8 billion of debt.

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 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 had been recorded in Advance to KCS and other transaction costs within the Consolidated Balance Sheets in the second quarter of 2021 and has been expensed to Transaction-related costs within the Consolidated Statements of Income in the third quarter. This advance, along with $63 million of transaction-related costs paid in the second quarter, have been 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.

4 – Assets held for sale

In the second quarter of 2020, the Company committed to a plan and was actively marketing for sale for on-going rail operations, certain non-core lines in Wisconsin, Michigan and Ontario representing approximately 850 miles and has met the criteria for classification of the related assets as assets held for sale. Accordingly, a $486 million loss ($363 million after-tax) was recorded to adjust the carrying amount of these track and roadway assets to their estimated net selling price.

On March 31, 2021, CN entered into an agreement with a short line operator, for the sale of the non-core lines plus an additional 50 miles of track and roadway assets not originally included within assets held for sale, subject to various conditions including regulatory authorization by the STB. The carrying amount of assets held for sale was adjusted in the first quarter of 2021 to $260 million ($90 million as at December 31, 2020), to reflect the contractual selling price net of estimated transaction costs and the additional track and roadway assets included as part of the agreement. The increase of $170 million included a $137 million recovery of the loss ($102 million after-tax) on the non-core lines and $33 million for the additional track and roadway assets. The carrying amount of assets held for sale was included in Other current assets in the Consolidated Balance Sheets. As at December 31, 2021, the criteria for the classification of assets held for sale continued to be met and there was no change to the carrying amount of assets held for sale.

In the fourth quarter of 2021, the STB approved the Company's agreement with the short line operator without condition and the transaction is expected to close on January 28, 2022 and January 31, 2022 for the U.S. and Canadian assets, respectively.

5 – Subsequent events

Normal course issuer bid (NCIB)

On January 25, 2022, the Board of Directors of the Company approved a new NCIB, which allows for the repurchase of up to 42.0 million common shares between February 1, 2022 and January 31, 2023.