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2023 QUARTERLY REVIEW **FOURTH QUARTER**





CN Announces Fourth Quarter and Year-End Results

Railroad Running Well, Targeting ~10% EPS Growth in 2024

MONTREAL, January 23, 2024 – CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the fourth quarter and year ended December 31, 2023. For the fourth quarter, the Company delivered diluted earnings per share (EPS) of C\$3.29, an increase of 57% and adjusted diluted EPS of C\$2.02, a decrease of 4%. ⁽¹⁾ Operating ratio for the fourth quarter increased by 1.4-points to 59.3%. For 2023, the Company reported diluted EPS growth of 15%, while adjusted diluted EPS decreased by 2%. ⁽¹⁾ Operating ratio for 2023 increased by 0.8-points, or 0.9-points on an adjusted basis. ⁽¹⁾

“Through 2023, our team of dedicated railroaders leveraged our scheduled operating model to deliver exceptional service for our customers and remained resilient in the face of numerous external challenges. Looking forward, we are optimistic as CN specific growth initiatives are producing volumes. While economic uncertainty persists, we have the momentum to deliver sustainable profitable growth in 2024.”

– Tracy Robinson, President and Chief Executive Officer, CN

Financial results highlights

Fourth-quarter 2023 compared to fourth-quarter 2022

- Revenues of C\$4,471 million, a decrease of C\$71 million or 2%.
- Operating income of C\$1,818 million, a decrease of C\$94 million, or 5%.
- Operating ratio, defined as operating expenses as a percentage of revenues, of 59.3%, an increase of 1.4-points.
- Net income of C\$2,130 million, an increase of C\$710 million, or 50% and adjusted net income of C\$1,305 million, a decrease of C\$115 million, or 8%. ⁽¹⁾
- Diluted EPS of C\$3.29, an increase of 57% and adjusted diluted EPS of C\$2.02, a decrease of 4%. ⁽¹⁾

Full-year 2023 compared to full-year 2022

- Revenues of C\$16,828 million, a decrease of C\$279 million or 2%.
- Operating income of C\$6,597 million, a decrease of C\$243 million, or 4%.
- Operating ratio of 60.8%, an increase of 0.8 points, or an increase of 0.9- points on an adjusted basis. ⁽¹⁾
- Net income of C\$5,625 million, an increase of C\$507 million, or 10% and adjusted net income of C\$4,800 million, a decrease of C\$334 million, or 7%. ⁽¹⁾
- Diluted EPS of C\$8.53, an increase of 15% and adjusted diluted EPS of C\$7.28, a decrease of 2%. ⁽¹⁾
- The Company generated free cash flow of C\$3,887 million, a 9% decrease. ⁽¹⁾
- Return on invested capital (ROIC) of 16.8%, an increase of 1.0-point and adjusted ROIC of 14.5%, a decrease of 1.4-points. ⁽¹⁾

Operating performance

Fourth-quarter 2023 compared to fourth-quarter 2022

Operating performance improved across most measures in the fourth quarter of 2023 when compared to the same period in 2022.

- Injury frequency rate at a record low of 0.79 (per 200,000 person hours), an improvement of 14%. ⁽³⁾
- Accident rate of 1.51 (per million train miles), an improvement of 29%. ⁽³⁾
- Fuel efficiency of 0.874 (US gallons of locomotive fuel consumed per 1,000 gross ton miles (GTMs)), an improvement of 1%.
- Through dwell of 6.9 (entire railroad, hours), an improvement of 4%.
- Car velocity of 215 (car miles per day), an improvement of 4%.
- Through network train speed (mph) of 19.6 remained flat.
- Train length of 7,951 (in feet), an increase of 1%.
- Revenue ton miles (RTMs) of 61,136 (millions), an increase of 2%.

Full-year 2023 compared to full-year 2022

The Company's continued focus on scheduled railroading in 2023, helped by more favorable winter operating conditions partly offset by operational disruptions related to Canadian wildfires and the Canadian West Coast dock workers strike, resulted in improvements in car velocity, train speed and through dwell when compared to 2022.

- Injury frequency rate at a record low of 0.96 (per 200,000 person hours), an improvement of 13%.⁽³⁾
- Accident rate of 1.74 (per million train miles), an improvement of 17%.⁽³⁾
- Through dwell of 7.0 (entire railroad, hours), an improvement of 8%.
- Car velocity of 213 (car miles per day), an improvement of 9%.
- Through network train speed of 19.8 (mph), an improvement of 5%.
- Fuel efficiency of 0.874 (US gallons of locomotive fuel consumed per 1,000 GTMs), less efficient by 1%.
- Train length of 7,891 (in feet), a decrease of 3%.
- Revenue ton miles (RTMs) of 232,614 (millions), a decrease of 1%.

2024 outlook and shareholder distributions⁽²⁾

In 2024, CN expects to deliver diluted adjusted EPS growth of approximately 10% and expects to invest approximately C\$3.5 billion in its capital program, net of amounts reimbursed by customers. The Company also expects return on invested capital (ROIC) to be within the targeted range of 15%-17%.

CN reiterates its longer-term financial perspective and continues to target compounded annual diluted EPS growth in the range of 10%-15% over the 2024-2026 period driven by growing volumes more than the economy, pricing above rail inflation and incrementally improving efficiency, all of which assumes a supportive economy.⁽²⁾

The Company's Board of Directors approved a 7% increase to CN's 2024 quarterly cash dividend, effective for the first quarter of 2024. This is the 28th 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, 2024, and ending no later than January 31, 2025.

Fourth-quarter 2023 revenues, traffic volumes and expenses

Revenues for the quarter decreased by 2% to C\$4,471 million, when compared to the same period in 2022. The decrease was mainly due to lower shipments of intermodal and grain as well as lower container storage fees and lower fuel surcharge revenues as a result of lower fuel prices; partly offset by freight rate increases and higher shipments of potash, natural gas liquids and refined petroleum products.

Operating expenses for the quarter increased by 1% to C\$2,653 million, when compared to the same period in 2022. The increase was mainly due to higher Labor and fringe benefits expense mainly driven by general wage increases and higher average headcount and higher personal injury and legal claim provisions; partly offset by lower fuel prices.

Full-year 2023 revenues, traffic volumes and expenses

Revenues for 2023 decreased by 2% to C\$16,828 million, when compared to 2022. The decrease in revenues was mainly attributable to lower shipments of intermodal, crude oil, U.S. grain and forest products as well as lower container storage fees and lower fuel surcharge revenues as a result of lower fuel prices; partly offset by freight rate increases, higher Canadian grain export shipments and higher shipments of potash and the positive translation impact of a weaker Canadian dollar.

Operating expenses were C\$10,231 million. Operating expenses remained flat mainly due to lower fuel prices; offset by the negative translation impact of a weaker Canadian dollar and higher labor and fringe benefits expense mainly driven by general wage increases and higher average headcount.

(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 and full-year adjusted ROIC outlook ⁽²⁾ exclude certain adjustments, 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 on its adjusted diluted EPS or its adjusted ROIC 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 or its adjusted ROIC 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.

2024 key assumptions

CN has made a number of economic and market assumptions in preparing its 2024 outlook. The Company assumes slightly positive North American industrial production in 2024. For the 2023/2024 crop year, the grain crop in Canada was below its three-year average (also below when excluding the significantly lower 2021/2022 crop year) and the U.S. grain crop was above its three-year average. The Company assumes that the 2024/2025 grain crop in Canada will be in line with its three-year average (excluding the significantly lower 2021/2022 crop year) and the U.S. grain crop will also be in line with its three-year average. CN assumes RTM growth in mid-single digit range. CN assumes continued pricing above rail inflation upon contract renewals. CN also assumes that in 2024, the value of the Canadian dollar in U.S. currency will be approximately \$0.75, and assumes that in 2024 the average price of crude oil (West Texas Intermediate) will be approximately in the US\$70 - US\$80 range per barrel.

2024-2026 key assumptions

CN has made a number of economic and market assumptions in preparing its three-year financial perspective. CN assumes North American industrial production growth of at least two percent CAGR for 2024-2026. CN assumes continued pricing above rail inflation. CN assumes that the value of the Canadian dollar in U.S. currency will be approximately \$0.75 and that the average price of crude oil (West Texas Intermediate) will be approximately US\$80 per barrel during this period.

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 and other types of claims and litigation; risks and liabilities arising from derailments; timing and completion of capital programs; the availability of and cost competitiveness of renewable fuels and the development of new locomotive propulsion technology; reputational risks; supplier concentration; pension funding requirements and volatility; 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 incorporated by reference into this news release.

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

PRESS RELEASE

This earnings news release is available on the Company's website at www.cn.ca/financial-results and on SEDAR+ at www.sedarplus.ca 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 an 18,800 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	
	2023	2022	2023	2022
Financial measures				
Key financial performance indicators ⁽¹⁾				
Total revenues (\$ millions)	4,471	4,542	16,828	17,107
Freight revenues (\$ millions)	4,303	4,400	16,236	16,569
Operating income (\$ millions)	1,818	1,912	6,597	6,840
Adjusted operating income (\$ millions) ⁽²⁾⁽³⁾	1,818	1,912	6,597	6,862
Net income (\$ millions)	2,130	1,420	5,625	5,118
Adjusted net income (\$ millions) ⁽²⁾⁽³⁾	1,305	1,420	4,800	5,134
Diluted earnings per share (\$)	3.29	2.10	8.53	7.44
Adjusted diluted earnings per share (\$) ⁽²⁾⁽³⁾	2.02	2.10	7.28	7.46
Free cash flow (\$ millions) ⁽²⁾⁽⁴⁾	1,613	1,335	3,887	4,259
Gross property additions (\$ millions)	947	927	3,217	2,757
Share repurchases (\$ millions)	1,113	1,065	4,551	4,709
Dividends per share (\$)	0.7900	0.7325	3.1600	2.9300
Financial ratio				
Operating ratio (%) ⁽⁵⁾	59.3	57.9	60.8	60.0
Adjusted operating ratio (%) ⁽²⁾⁽³⁾	59.3	57.9	60.8	59.9
Operational measures ⁽⁶⁾				
Statistical operating data				
Gross ton miles (GTMs) (millions)	118,687	116,317	452,043	463,710
Revenue ton miles (RTMs) (millions)	61,136	60,143	232,614	235,788
Carloads (thousands)	1,388	1,408	5,436	5,697
Route miles (includes Canada and the U.S., end of year)	18,800	18,600	18,800	18,600
Employees (end of period)	24,987	23,971	24,987	23,971
Employees (average for the period)	25,102	23,998	24,920	23,396
Key operating measures				
Freight revenue per RTM (cents)	7.04	7.32	6.98	7.03
Freight revenue per carload (\$)	3,100	3,125	2,987	2,908
GTMs per average number of employees (thousands)	4,728	4,847	18,140	19,820
Operating expenses per GTM (cents)	2.24	2.26	2.26	2.21
Labor and fringe benefits expense per GTM (cents)	0.69	0.63	0.70	0.63
Diesel fuel consumed (US gallons in millions)	103.7	103.0	395.2	402.2
Average fuel price (\$ per US gallon)	4.76	5.73	4.62	5.42
Fuel efficiency (US gallons of locomotive fuel consumed per 1,000 GTMs)	0.874	0.886	0.874	0.867
Train weight (tons)	9,299	9,148	9,186	9,324
Train length (feet)	7,951	7,870	7,891	8,160
Car velocity (car miles per day)	215	207	213	196
Through dwell (entire railroad, hours)	6.9	7.2	7.0	7.6
Through network train speed (miles per hour)	19.6	19.6	19.8	18.9
Locomotive utilization (trailing GTMs per total horsepower)	193	196	191	197
Safety indicators ⁽⁷⁾				
Injury frequency rate (per 200,000 person hours)	0.79	0.92	0.96	1.10
Accident rate (per million train miles)	1.51	2.12	1.74	2.10

(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 gross ton miles, revenue ton miles, freight revenue per RTM, 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.

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

SUPPLEMENTARY INFORMATION – UNAUDITED

	Three months ended December 31				Year ended December 31			
	2023	2022	% Change Fav (Unfav)	% Change at constant currency ⁽¹⁾ Fav (Unfav)	2023	2022	% Change Fav (Unfav)	% Change at constant currency ⁽¹⁾ Fav (Unfav)
Revenues (\$ millions) ⁽²⁾								
Petroleum and chemicals	861	794	8%	8%	3,195	3,229	(1%)	(3%)
Metals and minerals	507	500	1%	1%	2,048	1,911	7%	4%
Forest products	486	517	(6%)	(6%)	1,943	2,006	(3%)	(6%)
Coal	249	235	6%	6%	1,017	937	9%	7%
Grain and fertilizers	994	954	4%	4%	3,265	2,783	17%	15%
Intermodal	948	1,184	(20%)	(20%)	3,823	4,906	(22%)	(23%)
Automotive	258	216	19%	19%	945	797	19%	15%
Total freight revenues	4,303	4,400	(2%)	(2%)	16,236	16,569	(2%)	(4%)
Other revenues	168	142	18%	18%	592	538	10%	8%
Total revenues	4,471	4,542	(2%)	(2%)	16,828	17,107	(2%)	(4%)
Revenue ton miles (RTMs) (millions) ⁽³⁾								
Petroleum and chemicals	11,931	10,669	12%	12%	43,846	46,273	(5%)	(5%)
Metals and minerals	6,986	6,753	3%	3%	28,444	27,606	3%	3%
Forest products	5,612	5,937	(5%)	(5%)	23,141	25,020	(8%)	(8%)
Coal	5,448	5,415	1%	1%	22,682	22,679	—%	—%
Grain and fertilizers	18,341	17,611	4%	4%	63,479	55,359	15%	15%
Intermodal	11,968	13,063	(8%)	(8%)	47,886	56,029	(15%)	(15%)
Automotive	850	695	22%	22%	3,136	2,822	11%	11%
Total RTMs	61,136	60,143	2%	2%	232,614	235,788	(1%)	(1%)
Freight revenue / RTM (cents) ⁽²⁾⁽³⁾								
Petroleum and chemicals	7.22	7.44	(3%)	(3%)	7.29	6.98	4%	2%
Metals and minerals	7.26	7.40	(2%)	(2%)	7.20	6.92	4%	1%
Forest products	8.66	8.71	(1%)	(1%)	8.40	8.02	5%	2%
Coal	4.57	4.34	5%	5%	4.48	4.13	8%	7%
Grain and fertilizers	5.42	5.42	—%	—%	5.14	5.03	2%	—%
Intermodal	7.92	9.06	(13%)	(13%)	7.98	8.76	(9%)	(10%)
Automotive	30.35	31.08	(2%)	(3%)	30.13	28.24	7%	4%
Total freight revenue / RTM	7.04	7.32	(4%)	(4%)	6.98	7.03	(1%)	(3%)
Carloads (thousands) ⁽³⁾								
Petroleum and chemicals	166	154	8%	8%	634	636	—%	—%
Metals and minerals	253	247	2%	2%	1,002	956	5%	5%
Forest products	75	80	(6%)	(6%)	309	330	(6%)	(6%)
Coal	125	126	(1%)	(1%)	511	503	2%	2%
Grain and fertilizers	187	192	(3%)	(3%)	670	614	9%	9%
Intermodal	522	556	(6%)	(6%)	2,078	2,450	(15%)	(15%)
Automotive	60	53	13%	13%	232	208	12%	12%
Total carloads	1,388	1,408	(1%)	(1%)	5,436	5,697	(5%)	(5%)
Freight revenue / carload (\$) ⁽²⁾⁽³⁾								
Petroleum and chemicals	5,187	5,156	1%	—%	5,039	5,077	(1%)	(3%)
Metals and minerals	2,004	2,024	(1%)	(1%)	2,044	1,999	2%	(1%)
Forest products	6,480	6,463	—%	—%	6,288	6,079	3%	1%
Coal	1,992	1,865	7%	6%	1,990	1,863	7%	5%
Grain and fertilizers	5,316	4,969	7%	7%	4,873	4,533	8%	6%
Intermodal	1,816	2,129	(15%)	(15%)	1,840	2,002	(8%)	(9%)
Automotive	4,300	4,075	6%	5%	4,073	3,832	6%	3%
Total freight revenue / carload	3,100	3,125	(1%)	(1%)	2,987	2,908	3%	1%

(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 changes in tax laws including rate enactments, and changes in tax positions affecting prior years.

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, 2023, the Company's adjusted net income was \$1,305 million, or \$2.02 per diluted share, and \$4,800 million, or \$7.28 per diluted share, respectively. The adjusted figures for the three months and year ended December 31, 2023 exclude:

- a gain on disposal of property within the Bala Subdivision located in Markham and Richmond Hill, Ontario, Canada of \$129 million, or \$112 million after-tax (\$0.17 per diluted share) recorded in the fourth quarter in Other income within the Consolidated Statements of Income; and
- a net deferred income tax recovery of \$713 million (\$1.10 per diluted share for the quarter and \$1.08 per diluted share for the year) recorded in the fourth quarter resulting from tax filings consistent with a ruling that the Company received in a non-U.S. foreign jurisdiction in connection with prior taxation years.

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) of which \$12 million, or \$9 million after-tax (\$0.01 per diluted share) was recorded in the second quarter and \$10 million, or \$7 million after-tax (\$0.01 per diluted share) was recorded in the first quarter in Other expense within the Consolidated Statements of Income.

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, 2023 and 2022, 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	
	2023	2022	2023	2022
Net income	\$ 2,130	\$ 1,420	\$ 5,625	\$ 5,118
Adjustments:				
Operating expense adjustments:				
Advisory fees related to shareholder matters	–	–	–	22
Non-operating expense adjustments:				
Gain on disposal of property	(129)	–	(129)	–
Tax adjustments:				
Tax effect of adjustments ⁽¹⁾	17	–	17	(6)
Tax-deductible goodwill and related impacts ⁽²⁾	(713)	–	(713)	–
Total adjustments	(825)	–	(825)	16
Adjusted net income	\$ 1,305	\$ 1,420	\$ 4,800	\$ 5,134
Diluted earnings per share	\$ 3.29	\$ 2.10	\$ 8.53	\$ 7.44
Impact of adjustments, per share	(1.27)	–	(1.25)	0.02
Adjusted diluted earnings per share	\$ 2.02	\$ 2.10	\$ 7.28	\$ 7.46

(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.

(2) Relates to the impacts of recognizing the \$767 million deferred income tax recovery party offset by a \$54 million income tax expense on the foregone tax deductions for the 2021 and 2022 taxation years.

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, 2023 and 2022, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentages</i>	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Operating income	\$ 1,818	\$ 1,912	\$ 6,597	\$ 6,840
Adjustment:				
Advisory fees related to shareholder matters	–	–	–	22
Total adjustment	–	–	–	22
Adjusted operating income	\$ 1,818	\$ 1,912	\$ 6,597	\$ 6,862
Operating expenses	\$ 2,653	\$ 2,630	\$ 10,231	\$ 10,267
Total adjustment	–	–	–	(22)
Adjusted operating expenses	\$ 2,653	\$ 2,630	\$ 10,231	\$ 10,245
Operating ratio	59.3 %	57.9 %	60.8 %	60.0 %
Impact of adjustment	– %	– %	– %	(0.1)%
Adjusted operating ratio	59.3 %	57.9 %	60.8 %	59.9 %

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 \$1.362 and \$1.350 per US\$1.00 for the three months and year ended December 31, 2023, respectively, and \$1.358 and \$1.301 per US\$1.00 for the three months and year ended December 31, 2022, respectively. On a constant currency basis, the Company's Net income for the three months and year ended December 31, 2023 would have been lower by \$2 million (\$nil per diluted share) and lower by \$96 million (\$0.15 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, 2023:

<i>In millions, except per share data</i>	Three months ended December 31				Year ended December 31			
	2023	Constant currency impact	2022	% Change at constant currency Fav (Unfav)	2023	Constant currency impact	2022	% Change at constant currency Fav (Unfav)
Revenues								
Petroleum and chemicals	\$ 861	\$ (1)	\$ 794	8%	\$ 3,195	\$ (71)	\$ 3,229	(3%)
Metals and minerals	507	(1)	500	1%	2,048	(59)	1,911	4%
Forest products	486	(2)	517	(6%)	1,943	(55)	2,006	(6%)
Coal	249	(1)	235	6%	1,017	(14)	937	7%
Grain and fertilizers	994	(2)	954	4%	3,265	(57)	2,783	15%
Intermodal	948	–	1,184	(20%)	3,823	(45)	4,906	(23%)
Automotive	258	(1)	216	19%	945	(25)	797	15%
Total freight revenues	4,303	(8)	4,400	(2%)	16,236	(326)	16,569	(4%)
Other revenues	168	–	142	18%	592	(12)	538	8%
Total revenues	4,471	(8)	4,542	(2%)	16,828	(338)	17,107	(4%)
Operating expenses								
Labor and fringe benefits	818	(2)	731	(12%)	3,150	(41)	2,935	(6%)
Purchased services and material	556	(1)	576	4%	2,254	(29)	2,191	(2%)
Fuel	569	(1)	672	15%	2,097	(69)	2,518	19%
Depreciation and amortization	463	–	451	(3%)	1,817	(25)	1,729	(4%)
Equipment rents	97	–	84	(15%)	359	(10)	338	(3%)
Other	150	–	116	(29%)	554	(13)	556	3%
Total operating expenses	2,653	(4)	2,630	(1%)	10,231	(187)	10,267	2%
Operating income	1,818	(4)	1,912	(5%)	6,597	(151)	6,840	(6%)
Interest expense	(199)	1	(153)	(29%)	(722)	23	(548)	(28%)
Other components of net periodic benefit income	119	–	124	(4%)	479	–	498	(4%)
Other income (loss)	134	–	(2)	6800%	134	–	(27)	596%
Income before income taxes	1,872	(3)	1,881	(1%)	6,488	(128)	6,763	(6%)
Income tax recovery (expense)	258	1	(461)	156%	(863)	32	(1,645)	49%
Net income	\$ 2,130	\$ (2)	\$ 1,420	50%	\$ 5,625	\$ (96)	\$ 5,118	8%
Diluted earnings per share	\$ 3.29	\$ –	\$ 2.10	57%	\$ 8.53	\$ (0.15)	\$ 7.44	13%

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 combinations 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, 2023 and 2022, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 2,413	\$ 2,272	\$ 6,965	\$ 6,667
Net cash used in investing activities	(1,190)	(937)	(3,468)	(2,510)
Net cash provided before financing activities	1,223	1,335	3,497	4,157
Adjustments:				
Business acquisitions and combinations ⁽¹⁾	390	—	390	—
Cash income taxes for merger transaction-related payments and cash receipts ⁽²⁾	—	—	—	102
Total adjustments	390	—	390	102
Free cash flow	\$ 1,613	\$ 1,335	\$ 3,887	\$ 4,259

(1) Relates to the acquisition of the shares of Iowa Northern Railway Company for \$312 million and the business combination of Cape Breton & Central Nova Scotia Railway for \$78 million. See Note 3 – *Business acquisitions and combinations* to the Company's unaudited Interim Consolidated Financial Statements for additional information.

(2) Relates to income tax payments of \$102 million for KCS merger transaction-related payments and cash receipts.

NON-GAAP MEASURES – UNAUDITED

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, 2023 and 2022, respectively, to adjusted debt and adjusted EBITDA, 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>		2023	2022
Debt		\$	18,473	\$ 15,429
Adjustments:				
Operating lease liabilities, including current portion ⁽¹⁾			415	466
Pension plans in deficiency ⁽²⁾			362	353
Adjusted debt		\$	19,250	\$ 16,248
Net income		\$	5,625	\$ 5,118
Interest expense			722	548
Income tax expense			863	1,645
Depreciation and amortization			1,817	1,729
Operating lease cost ⁽³⁾			149	142
Other components of net periodic benefit income			(479)	(498)
Other loss (income)			(134)	27
Adjustment:				
Advisory fees related to shareholder matters ⁽⁴⁾			—	22
Adjusted EBITDA		\$	8,563	\$ 8,733
Adjusted debt-to-adjusted EBITDA multiple (times)			2.25	1.86

(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 advisory fees related to shareholder matters recorded in Other expense within the Consolidated Statements of Income.

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>	2023	2022
Net income		\$ 5,625	\$ 5,118
Interest expense		722	548
Tax on interest expense ⁽¹⁾		(177)	(133)
Return		\$ 6,170	\$ 5,533
Average total shareholders' equity		\$ 20,751	\$ 22,064
Average long-term debt		15,253	13,175
Average current portion of long-term debt		1,699	783
Less: Average cash, cash equivalents, restricted cash and restricted cash equivalents		(879)	(1,088)
Average invested capital		\$ 36,824	\$ 34,934
ROIC		16.8%	15.8%
Adjusted net income ⁽²⁾		\$ 4,800	\$ 5,134
Interest expense		722	548
Tax on interest expense ⁽³⁾		(177)	(133)
Adjusted return		\$ 5,345	\$ 5,549
Average invested capital		\$ 36,824	\$ 34,934
Adjusted ROIC		14.5%	15.9%

(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 2023 was 24.5% (2022 - 24.3%). Due to the significantly lower effective tax rate reported by the Company in 2023, tax on interest expense for 2023 was calculated using an adjusted effective tax rate.

(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) 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 for 2023 was 24.5% (2022 - 24.3%).

INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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CONSOLIDATED STATEMENTS OF INCOME – UNAUDITED

<i>In millions, except per share data</i>	Three months ended		Year ended	
	December 31		December 31	
	2023	2022	2023	2022
Revenues	\$ 4,471	\$ 4,542	\$ 16,828	\$ 17,107
Operating expenses				
Labor and fringe benefits	818	731	3,150	2,935
Purchased services and material	556	576	2,254	2,191
Fuel	569	672	2,097	2,518
Depreciation and amortization	463	451	1,817	1,729
Equipment rents	97	84	359	338
Other	150	116	554	556
Total operating expenses	2,653	2,630	10,231	10,267
Operating income	1,818	1,912	6,597	6,840
Interest expense	(199)	(153)	(722)	(548)
Other components of net periodic benefit income	119	124	479	498
Other income (loss) (Note 4)	134	(2)	134	(27)
Income before income taxes	1,872	1,881	6,488	6,763
Income tax recovery (expense) (Note 5)	258	(461)	(863)	(1,645)
Net income	\$ 2,130	\$ 1,420	\$ 5,625	\$ 5,118
Earnings per share				
Basic	\$ 3.30	\$ 2.10	\$ 8.55	\$ 7.46
Diluted	\$ 3.29	\$ 2.10	\$ 8.53	\$ 7.44
Weighted-average number of shares				
Basic	646.4	674.9	657.7	686.4
Diluted	647.6	676.9	659.1	688.3
Dividends declared per share	\$ 0.7900	\$ 0.7325	\$ 3.1600	\$ 2.9300

See accompanying Notes to Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – UNAUDITED

<i>In millions</i>	Three months ended		Year ended	
	December 31		December 31	
	2023	2022	2023	2022
Net income	\$ 2,130	\$ 1,420	\$ 5,625	\$ 5,118
Other comprehensive income (loss)				
Net gain (loss) on foreign currency translation	(103)	(101)	(101)	366
Net change in pension and other postretirement benefit plans	(332)	(399)	(334)	(250)
Derivative instruments	19	—	96	(2)
Other comprehensive income (loss) before income taxes	(416)	(500)	(339)	114
Income tax recovery	47	77	29	158
Other comprehensive income (loss)	(369)	(423)	(310)	272
Comprehensive income	\$ 1,761	\$ 997	\$ 5,315	\$ 5,390

See accompanying Notes to Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS – UNAUDITED

<i>In millions</i>	<i>As at</i>	December 31 2023	December 31 2022
Assets			
Current assets			
Cash and cash equivalents	\$	475	\$ 328
Restricted cash and cash equivalents		449	506
Accounts receivable		1,300	1,371
Material and supplies		699	692
Other current assets		166	320
Total current assets		3,089	3,217
Properties		44,617	43,537
Operating lease right-of-use assets		424	470
Pension asset		3,140	3,033
Deferred income tax assets (Note 5)		682	–
Intangible assets, goodwill and other		714	405
Total assets	\$	52,666	\$ 50,662
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other	\$	2,695	\$ 2,785
Current portion of long-term debt		2,340	1,057
Total current liabilities		5,035	3,842
Deferred income tax liabilities		10,066	9,796
Other liabilities and deferred credits		522	441
Pension and other postretirement benefits		495	486
Long-term debt		16,133	14,372
Operating lease liabilities		298	341
Total liabilities		32,549	29,278
Shareholders' equity			
Common shares		3,512	3,613
Common shares in Share Trusts		(144)	(170)
Additional paid-in capital		373	381
Accumulated other comprehensive loss		(2,279)	(1,969)
Retained earnings		18,655	19,529
Total shareholders' equity		20,117	21,384
Total liabilities and shareholders' equity	\$	52,666	\$ 50,662

See accompanying Notes to Interim 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						
Balance at September 30, 2023	649.8	1.1	\$ 3,533	\$ (143)	\$ 375	\$ (1,910)	\$ 18,116	\$ 19,971
Net income							2,130	2,130
Stock options exercised	0.2		18		(2)			16
Settlement of equity settled awards	0.1	(0.1)		6	(12)		(7)	(13)
Stock-based compensation and other					12		(1)	11
Repurchase of common shares	(7.3)		(39)				(1,074)	(1,113)
Share purchases by Share Trusts	(0.1)	0.1		(7)				(7)
Other comprehensive loss						(369)		(369)
Dividends							(509)	(509)
Balance at December 31, 2023	642.7	1.1	\$ 3,512	\$ (144)	\$ 373	\$ (2,279)	\$ 18,655	\$ 20,117

<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						
Balance at December 31, 2022	671.0	1.4	\$ 3,613	\$ (170)	\$ 381	\$ (1,969)	\$ 19,529	\$ 21,384
Net income							5,625	5,625
Stock options exercised	0.5		56		(7)			49
Settlement of equity settled awards	0.5	(0.5)		54	(77)		(32)	(55)
Stock-based compensation and other					76		(2)	74
Repurchase of common shares	(29.1)		(157)				(4,394)	(4,551)
Share purchases by Share Trusts	(0.2)	0.2		(28)				(28)
Other comprehensive loss						(310)		(310)
Dividends							(2,071)	(2,071)
Balance at December 31, 2023	642.7	1.1	\$ 3,512	\$ (144)	\$ 373	\$ (2,279)	\$ 18,655	\$ 20,117

See accompanying Notes to Interim 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	Totals shareholders' equity
	Outstanding	Share Trusts						
Balance at September 30, 2022	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 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 loss						(423)		(423)
Dividends							(493)	(493)
Balance at December 31, 2022	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	Totals shareholders' equity
	Outstanding	Share Trusts						
Balance at December 31, 2021	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 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							(2,004)	(2,004)
Balance at December 31, 2022	671.0	1.4	\$3,613	\$ (170)	\$ 381	\$ (1,969)	\$ 19,529	\$ 21,384

See accompanying Notes to Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

<i>In millions</i>	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Operating activities				
Net income	\$ 2,130	\$ 1,420	\$ 5,625	\$ 5,118
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	463	451	1,817	1,729
Pension income and funding	(104)	(92)	(418)	(387)
Gain on disposal of property (Note 4)	(129)	–	(129)	–
Deferred income taxes (Note 5)	(591)	188	(288)	404
Changes in operating assets and liabilities:				
Accounts receivable	(18)	126	71	(290)
Material and supplies	44	11	(18)	(82)
Accounts payable and other	342	272	(191)	(9)
Other current assets	70	(70)	85	(30)
Other operating activities, net	206	(34)	411	214
Net cash provided by operating activities	2,413	2,272	6,965	6,667
Investing activities				
Property additions	(934)	(920)	(3,187)	(2,750)
Business acquisitions and combinations (Note 3)	(390)	–	(390)	–
Proceeds from assets held for sale	–	–	–	273
Proceeds from disposal of property (Note 4)	129	–	129	–
Other investing activities, net	5	(17)	(20)	(33)
Net cash used in investing activities	(1,190)	(937)	(3,468)	(2,510)
Financing activities				
Issuance of debt	824	–	2,554	1,899
Repayment of debt	(12)	(344)	(250)	(383)
Change in commercial paper, net	(404)	602	908	563
Settlement of foreign exchange forward contracts on debt	17	18	38	79
Issuance of common shares for stock options exercised	16	21	49	61
Withholding taxes remitted on the net settlement of equity settled awards	(13)	–	(51)	(44)
Repurchase of common shares	(1,152)	(1,122)	(4,551)	(4,709)
Purchase of common shares for settlement of equity settled awards	–	(1)	(4)	(24)
Purchase of common shares by Share Trusts	(7)	(87)	(28)	(105)
Dividends paid	(509)	(493)	(2,071)	(2,004)
Net cash used in financing activities	(1,240)	(1,406)	(3,406)	(4,667)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	(1)	(1)	(1)	3
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	(18)	(72)	90	(507)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	942	906	834	1,341
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 924	\$ 834	\$ 924	\$ 834
Cash and cash equivalents, end of period	\$ 475	\$ 328	\$ 475	\$ 328
Restricted cash and cash equivalents, end of period	449	506	449	506
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 924	\$ 834	\$ 924	\$ 834
Supplemental cash flow information				
Interest paid	\$ (154)	\$ (103)	\$ (776)	\$ (542)
Income taxes paid	\$ (210)	\$ (334)	\$ (1,197)	\$ (1,288)

See accompanying Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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 ("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 Interim Consolidated Financial Statements have been prepared using accounting policies consistent with those used in preparing CN's 2022 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 Updates (ASU) issued by the Financial Accounting Standards Board (FASB) has an effective date after December 31, 2023 and has not been adopted by the Company:

ASU 2023-07 Segment reporting (Topic 280): Improvements to reportable segment disclosures

The ASU will improve financial disclosures about a public entity's reportable segments and address requests from investors for additional and more detailed information regarding reportable segment expenses. The main amendments in the ASU require public entities, including those that have a single reportable segment, to disclose on an annual and interim basis the significant segment expenses provided to the chief operating decision maker (CODM), disclose the title/position of the CODM and how the segment expenses information is used in the decision making process.

The ASU is effective for annual periods beginning after December 15, 2023. Early adoption is permitted.

The adoption of the ASU will have an impact on the Company's Consolidated Financial Statements disclosures. The Company will include the relevant disclosure within the 2024 Annual Consolidated Financial Statements and 2025 Interim Financial Statements.

ASU 2023-09 – Income Taxes (Topic 740): Improvements to income tax disclosures

The ASU amends the rules on income tax disclosures by modifying or eliminating certain existing income tax disclosure requirements in addition to establishing new requirements. The amendments address investor requests for more transparency about income taxes, including jurisdictional information, by requiring consistent categories and greater disaggregation of information. The ASU's two primary amendments relate to the rate reconciliation and income taxes paid annual disclosures.

Reconciling items presented in the rate reconciliation will be in dollar amounts and percentages, and will be disaggregated into specified categories with certain reconciling items further broken out by nature and/or jurisdiction using a 5% threshold of domestic federal taxes. Income taxes paid will be disaggregated between federal, provincial/territorial, and foreign taxing jurisdictions using a 5% threshold of total income taxes paid net of refunds received.

The ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The ASU should be applied prospectively. Retrospective application is permitted.

The adoption of the ASU will have an impact on the Company's Consolidated Financial Statements disclosures. The required disclosure changes will be reflected in the Company's Consolidated Financial Statements when the ASU is adopted.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB) have 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

On March 31, 2023, the Company amended the non-revolving credit facility to transition to Secured Overnight Financing Rates (SOFR) succeeding London Interbank Offered Rates (LIBOR). The Company was eligible and has elected to use the optional expedient provided by the ASU which allowed the amendment to be accounted for as a non-substantial modification of an existing debt. As a result, the amendment did not have a significant impact to the Company's Interim Consolidated Financial Statements and related disclosures.

Additional information relating to the facilitation of the effects of reference rate reform on financial reporting and related amendments is provided in *Note 3 – Recent accounting pronouncements* to the Company's 2022 Annual Consolidated Financial Statements and the section entitled *Recent accounting pronouncements* of the Company's 2022 Annual MD&A.

Other recently issued ASUs required to be applied on or after December 31, 2023 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

3 – Business acquisitions and combinations

Iowa Northern Railway Company

On December 6, 2023, the Company acquired the shares of the Iowa Northern Railway Company (IANR), a Class III short-line railroad that owns and leases approximately 175 route miles in northeast Iowa that are connected to CN's U.S. rail network. CN paid US\$230 million (\$312 million), including transaction costs to date. IANR serves upper Midwest agricultural and industrial markets covering many goods, including biofuels and grain. This transaction represents a meaningful opportunity to support the growth of local business by creating single-line service to North American destinations, while preserving access to existing carrier options.

The shares of IANR were deposited into an independent voting trust while the U.S. Surface Transportation Board (STB) considers the Company's application to acquire control of IANR. During the trust period, IANR will continue to be operated under its current management and the Company cannot exercise day-to-day control. As a result, the Company recorded its investment in IANR at its acquisition cost under the equity method of accounting. Subject to final approval by the STB, the Company would obtain control of IANR and would account for the acquisition as a business combination under the acquisition method of accounting.

On the acquisition date of December 6, 2023, immediately prior to the acquisition, there was a basis difference of \$236 million between the consideration paid to acquire IANR and the underlying carrying value of the net assets of IANR. The basis difference related to depreciable properties and if any, intangible assets with definite lives will be amortized over the related assets' remaining useful lives. The remainder of the basis difference, relating to land, intangible assets with indefinite lives if any, and equity method goodwill, would not be amortized and would be carried at cost subject to an assessment for impairment. The estimated fair value of IANR's underlying net assets is preliminary based on information available to the Company to date and subject to change over the measurement period, which may be up to twelve months from the acquisition date.

The Company has not provided summarized financial information for IANR, on its historical cost basis, for the period December 6 to December 31, 2023, and as at December 31, 2023 as it was not material.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Cape Breton & Central Nova Scotia Railway

On November 1, 2023, the Company acquired from Genesee & Wyoming Inc, a stake in the Cape Breton & Central Nova Scotia Railway (CBNS), a Class III short-line railroad that owns approximately 150 route miles. CN paid \$78 million in cash, net of cash acquired and including working capital adjustments. The acquisition was accounted for as a business combination. As a result, the Company's Consolidated Balance Sheet includes the net assets of CBNS as of November 1, 2023, which were comprised of \$101 million in fair value of properties mostly track and roadway assets, partly offset by \$18 million in deferred tax liabilities. The remaining net assets were comprised of current assets and liabilities which were individually insignificant and there were no identifiable intangible assets. No goodwill was recognized. The fair value of CBNS's underlying net assets has been estimated on a preliminary basis and may be subject to change as additional information becomes available over the next twelve months. The Company has not provided pro forma information related to prior periods as it was not material.

4 – Other income

2023

Disposal of property

On December 13, 2023, the Company completed the sale of a portion of land within the Bala Subdivision located in Markham and Richmond Hill, Ontario, Canada for cash proceeds of \$129 million which resulted in a gain of \$129 million (\$112 million after tax) as the carrying amount of the land was nominal.

5 – Income taxes

In the fourth quarter of 2023, the Company received a ruling from taxation authorities in a non-U.S. foreign jurisdiction in connection with prior taxation years. Consistent with the ruling, and effective as of January 1, 2021, the Company has foregone favorable tax deductions of a permanent nature on certain income generated from intercompany arrangements. This resulted in the Company generating tax-deductible goodwill approximating the value of the foregone tax deductions, which is available to be amortized over a period of up to ten years.

As a result, the Company recorded a net deferred income tax recovery of \$682 million, comprised of a \$767 million deferred income tax recovery related to the tax-deductible goodwill initially generated as of January 1, 2021, partly offset by a \$85 million income tax expense related to the foregone tax deduction (\$31 million for 2023 and \$54 million for prior years) which was initially recorded in current taxes and was then reclassified to deferred taxes following the amortization of the tax-deductible goodwill for those years. As a result, the remaining deferred income tax asset as at December 31, 2023 was \$682 million, representing the tax impact of unamortized tax-deductible goodwill of \$5.8 billion.

6 – Subsequent event

Normal course issuer bid (NCIB)

On January 23, 2024, 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, 2024 and January 31, 2025.