



North America's Railroad

NEWS RELEASE

CN reports record Q4-2016 net income of C\$1,018 million, with diluted earnings per share (EPS) up 12 per cent to C\$1.32 and up four per cent to C\$1.23 on an adjusted basis ⁽¹⁾

Quarter caps solid full-year financial and operating performance, including significant improvements in safety

MONTREAL, Jan. 24, 2017 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the fourth quarter and year ended Dec. 31, 2016.

Fourth-quarter 2016 financial highlights

- Net income increased eight per cent to C\$1,018 million, while diluted EPS increased 12 per cent to C\$1.32, compared with the fourth quarter of 2015.
- Adjusted net income increased one per cent to \$952 million, with adjusted diluted EPS increasing four per cent to C\$1.23. ⁽¹⁾
- Operating income increased three per cent to C\$1,395 million.
- Revenues increased by two per cent to C\$3,217 million. Carloadings increased three per cent, and revenue ton-miles increased four per cent.
- The operating ratio improved by 0.6 points to 56.6 per cent.

Full-year 2016 financial highlights

- Net income increased three per cent to C\$3,640 million, with diluted EPS rising six per cent to C\$4.67.
- Adjusted net income remained essentially flat at C\$3,581 million, while adjusted diluted EPS increased three per cent to C\$4.59. ⁽¹⁾
- Operating income rose one per cent to C\$5,312 million.
- Revenues decreased by five per cent to C\$12,037 million. Carloadings and revenue ton-miles both declined by five per cent in 2016.
- The operating ratio for 2016 improved by 2.3 points to 55.9 per cent.
- Free cash flow ⁽¹⁾ was a record C\$2,520 million, compared with C\$2,373 million for 2015.

Luc Jobin, president and chief executive officer, said: "Despite facing difficult winter conditions in December, CN delivered very strong fourth-quarter results and throughout 2016 demonstrated once again its ability to perform well in a mixed economic environment.

"We saw weaker volumes during the year, but quickly adjusted as our dedicated team of railroaders maintained its focus on operational efficiency, while continuing to provide quality service to our customers and improve our safety performance."

2017 outlook, increased dividend ⁽²⁾

Jobin said: "Overall, the economy remains challenging, but we remain optimistic and expect to see moderate volume growth in 2017."

CN expects to deliver EPS growth in the mid-single-digit range in 2017 over adjusted diluted EPS of C\$4.59 in 2016. ⁽¹⁾ CN will continue to invest in the safety and efficiency of its network, with a 2017 capital investment program of approximately C\$2.5 billion, which includes increased spending for Positive Train Control technology in the United States.

The Company's Board of Directors today approved a 10 per cent increase to CN's 2017 quarterly cash dividend.

Fourth-quarter 2016 revenues, traffic volumes and expenses

Revenues for the quarter increased by two per cent to C\$3,217 million. Revenues increased for grain and fertilizers (14 per cent), automotive (four per cent), and intermodal (one per cent). Revenues declined for metals and minerals (six per cent), coal (six per cent), petroleum and chemicals (five per cent), while revenues for forest products remained flat.

The revenue increase was mainly attributable to higher volumes of Canadian grains and U.S. soybeans, refined petroleum products, finished vehicles, and petroleum coke; as well as freight rate increases. These factors were partly offset by lower volumes of crude oil, U.S. thermal coal, and drilling pipe; and lower applicable fuel surcharge rates.

Carloadings for the quarter increased three per cent to 1,369 thousand.

Revenue ton-miles (RTMs), measuring the relative weight and distance of rail freight transported by CN, increased by four per cent, while rail freight revenue per RTM, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, decreased by three per cent.

Operating expenses for the quarter increased by one per cent to C\$1,822 million. The increase was primarily due to higher casualty and other expenses, and higher depreciation and amortization expense, partly offset by lower pension expense and lower costs resulting from operating productivity gains, including cost-management initiatives.

Full-year 2016 revenues, traffic volumes and expenses

Revenues for 2016 decreased by five per cent to C\$12,037 million. Revenues increased for automotive (six per cent), forest products (four per cent), and grain and fertilizers (one per cent), but were more than offset by revenue declines for coal (29 per cent), metals and minerals (15 per cent), petroleum and chemicals (11 per cent), and intermodal (two per cent).

The decrease in total revenues was mainly attributable to lower volumes of crude oil, coal and frac sand; as well as lower applicable fuel surcharge rates. These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases.

Carloadings declined five per cent to 5,205 thousand.

RTMs decreased by five per cent. Rail freight revenue per RTM remained flat compared to 2015, driven by lower applicable fuel surcharge rates and an increase in the average length of haul; offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Operating expenses for 2016 decreased by eight per cent to C\$6,725 million. The decrease was mainly due to lower costs resulting from operating productivity gains, including cost-management initiatives and decreased volumes of traffic; lower pension expense; and lower fuel prices, partly offset by the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses.

The operating ratio was 55.9 per cent in 2016, an improvement of 2.3 points over the 2015 operating ratio of 58.2 per cent.

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis ⁽¹⁾ that excludes the impact of fluctuations in foreign currency exchange rates, CN's net income for the three months and year ended December 31, 2016 would have been lower by C\$3 million (unchanged per diluted share) and C\$85 million (C\$0.11 per diluted share), respectively.

(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 performance measures, constant currency, and free cash flow. 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 EPS guidance ⁽²⁾ excludes the expected impact of certain income and expense items. However, management cannot individually quantify on a forward-looking basis the impact of these items on its EPS 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 EPS guidance.

(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. By their nature, forward-looking statements involve risks, uncertainties and assumptions. The Company 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.

2017 key assumptions

CN has made a number of economic and market assumptions in preparing its 2017 outlook. The Company is assuming that North American industrial production for the year will increase in the range of one to two per cent and assumes U.S. housing starts in the range of 1.25 million units and U.S. motor vehicle sales of approximately 17.5 million units. For the 2016/2017 crop year, the grain crops in both the United States and Canada were above their respective five-year averages. The Company assumes that the 2017/2018 grain crops in both Canada and the United States will be in line with their respective five-year averages. With these assumptions, CN assumes total RTMs for all freight categories in 2017 will increase in the range of three to four per cent versus 2016. CN expects continued pricing improvement above inflation. CN assumes that in 2017 the value of the Canadian dollar in U.S. currency will be in the range of \$0.75, and that the average price of crude oil (West Texas Intermediate) will be in the range of US\$50 to US\$60 per barrel. In 2017, CN plans to invest approximately C\$2.5 billion in its capital program, of which C\$1.6 billion is targeted toward track infrastructure.

Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from the outlook or any future results or performance 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 effects of general economic and business conditions; 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; security threats; reliance on technology; trade restrictions; transportation of hazardous materials; various events which could disrupt operations, including natural events such as severe weather, droughts, 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; 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.

This earnings news release is available on the Company's website at www.cn.ca/quarterly-releases and on SEDAR at www.sedar.com as well as on EDGAR at www.sec.gov.

CN is a true backbone of the economy transporting more than C\$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network of approximately 20,000 route-miles spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries – serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., and Jackson, Miss., with connections to all points in North America. For more information about CN, visit the Company's website at www.cn.ca.

– 30 –

Contacts:

Media

Patrick Waldron
Senior Manager
Media Relations
(514) 399-8803

Investment Community

Paul Butcher
Vice-President
Investor Relations
(514) 399-0052

Selected Railroad Statistics – unaudited

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Financial measures				
Key financial performance indicators ⁽¹⁾				
Total revenues (\$ millions)	3,217	3,166	12,037	12,611
Rail freight revenues (\$ millions)	3,022	2,987	11,326	11,905
Operating income (\$ millions)	1,395	1,354	5,312	5,266
Net income (\$ millions)	1,018	941	3,640	3,538
Diluted earnings per share (\$)	1.32	1.18	4.67	4.39
Adjusted diluted earnings per share (\$) ⁽²⁾	1.23	1.18	4.59	4.44
Free cash flow (\$ millions) ⁽²⁾	777	632	2,520	2,373
Gross property additions (\$ millions)	723	642	2,752	2,706
Share repurchases (\$ millions)	446	500	2,000	1,750
Dividends per share (\$)	0.3750	0.3125	1.5000	1.2500
Financial position ⁽¹⁾				
Total assets (\$ millions)	37,057	36,402	37,057	36,402
Total liabilities (\$ millions)	22,216	21,452	22,216	21,452
Shareholders' equity (\$ millions)	14,841	14,950	14,841	14,950
Financial ratio				
Operating ratio (%)	56.6	57.2	55.9	58.2
Operational measures ⁽³⁾				
Statistical operating data				
Gross ton miles (GTM) (millions)	114,424	110,245	423,426	442,084
Revenue ton miles (RTM) (millions)	58,906	56,534	214,327	224,710
Carloads (thousands)	1,369	1,325	5,205	5,485
Route miles (includes Canada and the U.S.)	19,600	19,600	19,600	19,600
Employees (end of period)	22,249	23,066	22,249	23,066
Employees (average for the period)	22,231	23,490	22,322	24,406
Key operating measures				
Rail freight revenue per RTM (cents)	5.13	5.28	5.28	5.30
Rail freight revenue per carload (\$)	2,207	2,254	2,176	2,170
GTM per average number of employees (thousands)	5,147	4,693	18,969	18,114
Operating expenses per GTM (cents)	1.59	1.64	1.59	1.66
Labor and fringe benefits expense per GTM (cents)	0.49	0.55	0.50	0.54
Diesel fuel consumed (US gallons in millions)	107.3	105.9	398.9	425.0
Average fuel price (\$/US gallon)	2.58	2.54	2.34	2.68
GTM per US gallon of fuel consumed	1,066	1,041	1,061	1,040
Terminal dwell (hours)	14.5	14.3	14.0	15.0
Train velocity (miles per hour)	26.6	27.4	27.3	26.3
Safety indicators ⁽⁴⁾				
Injury frequency rate (per 200,000 person hours)	1.75	1.55	1.70	1.63
Accident rate (per million train miles)	1.71	1.48	1.42	2.06

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

(2) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

(3) Statistical operating data, key operating measures and safety indicators are based on estimated data available at such time and are subject to change as more complete information becomes available, as such, certain of the comparative data have been restated. Definitions of these indicators are provided on our website, www.cn.ca/glossary.

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

Supplementary Information – unaudited

	Three months ended December 31				Year ended December 31			
	2016	2015	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) ⁽¹⁾	2016	2015	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) ⁽¹⁾
Revenues (\$ millions) ⁽²⁾								
Petroleum and chemicals	572	604	(5%)	(5%)	2,174	2,442	(11%)	(13%)
Metals and minerals	313	332	(6%)	(6%)	1,218	1,437	(15%)	(17%)
Forest products	447	445	-	-	1,797	1,728	4%	1%
Coal	136	144	(6%)	(5%)	434	612	(29%)	(30%)
Grain and fertilizers	647	568	14%	14%	2,098	2,071	1%	-
Intermodal	720	715	1%	1%	2,846	2,896	(2%)	(3%)
Automotive	187	179	4%	4%	759	719	6%	3%
Total rail freight revenues	3,022	2,987	1%	1%	11,326	11,905	(5%)	(7%)
Other revenues	195	179	9%	8%	711	706	1%	(1%)
Total revenues	3,217	3,166	2%	2%	12,037	12,611	(5%)	(7%)
Revenue ton miles (RTMs) (millions)								
Petroleum and chemicals	11,803	12,616	(6%)	(6%)	43,395	51,103	(15%)	(15%)
Metals and minerals	5,593	5,061	11%	11%	20,233	21,828	(7%)	(7%)
Forest products	7,751	7,603	2%	2%	31,401	30,097	4%	4%
Coal	3,446	3,708	(7%)	(7%)	11,032	15,956	(31%)	(31%)
Grain and fertilizers	16,203	13,875	17%	17%	51,485	50,001	3%	3%
Intermodal	13,194	12,837	3%	3%	53,056	52,144	2%	2%
Automotive	916	834	10%	10%	3,725	3,581	4%	4%
Total RTMs	58,906	56,534	4%	4%	214,327	224,710	(5%)	(5%)
Rail freight revenue / RTM (cents) ⁽²⁾								
Petroleum and chemicals	4.85	4.79	1%	1%	5.01	4.78	5%	2%
Metals and minerals	5.60	6.56	(15%)	(15%)	6.02	6.58	(9%)	(11%)
Forest products	5.77	5.85	(1%)	(2%)	5.72	5.74	-	(3%)
Coal	3.95	3.88	2%	3%	3.93	3.84	2%	1%
Grain and fertilizers	3.99	4.09	(2%)	(2%)	4.07	4.14	(2%)	(3%)
Intermodal	5.46	5.57	(2%)	(2%)	5.36	5.55	(3%)	(5%)
Automotive	20.41	21.46	(5%)	(5%)	20.38	20.08	1%	(1%)
Total rail freight revenue / RTM	5.13	5.28	(3%)	(3%)	5.28	5.30	-	(2%)
Carloads (thousands)								
Petroleum and chemicals	156	157	(1%)	(1%)	599	640	(6%)	(6%)
Metals and minerals	230	185	24%	24%	807	886	(9%)	(9%)
Forest products	108	109	(1%)	(1%)	440	441	-	-
Coal	92	105	(12%)	(12%)	333	438	(24%)	(24%)
Grain and fertilizers	177	163	9%	9%	602	607	(1%)	(1%)
Intermodal	541	545	(1%)	(1%)	2,163	2,232	(3%)	(3%)
Automotive	65	61	7%	7%	261	241	8%	8%
Total carloads	1,369	1,325	3%	3%	5,205	5,485	(5%)	(5%)
Rail freight revenue / carload (\$) ⁽²⁾								
Petroleum and chemicals	3,667	3,847	(5%)	(5%)	3,629	3,816	(5%)	(7%)
Metals and minerals	1,361	1,795	(24%)	(24%)	1,509	1,622	(7%)	(9%)
Forest products	4,139	4,083	1%	1%	4,084	3,918	4%	1%
Coal	1,478	1,371	8%	9%	1,303	1,397	(7%)	(8%)
Grain and fertilizers	3,655	3,485	5%	5%	3,485	3,412	2%	-
Intermodal	1,331	1,312	1%	1%	1,316	1,297	1%	-
Automotive	2,877	2,934	(2%)	(2%)	2,908	2,983	(3%)	(5%)
Total rail freight revenue / carload	2,207	2,254	(2%)	(2%)	2,176	2,170	-	(2%)

Statistical operating data and related key operating measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

(2) Amounts expressed in Canadian dollars.

Non-GAAP Measures – unaudited

In this supplementary schedule, the word “Company” or “CN” means, as the context requires, Canadian National Railway Company and 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, and adjusted debt-to-adjusted EBITDA multiple. 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

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of CN’s normal day-to-day operations and could distort the analysis of trends in business performance. Management uses these measures, which exclude certain income and expense items in its results that management believes are not reflective of CN’s underlying business operations, to set performance goals and as a means to measure the performance of CN. The exclusion of items in adjusted net income and adjusted earnings per share does not, however, imply that these items are necessarily non-recurring. 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, 2016, the Company reported adjusted net income of \$952 million, or \$1.23 per diluted share and \$3,581 million, or \$4.59 per diluted share, respectively. The adjusted figures for the three months and year ended December 31, 2016 exclude a gain on disposal of approximately one mile of elevated track leading into Montreal’s Central Station, together with the rail fixtures (collectively the “Viaduc du Sud”), of \$76 million, or \$66 million after-tax (\$0.09 per diluted share). The adjusted figures for the year ended December 31, 2016 also exclude a deferred income tax expense of \$7 million (\$0.01 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate that was recorded in the second quarter.

For the three months and year ended December 31, 2015, the Company reported adjusted net income of \$941 million, or \$1.18 per diluted share and \$3,580 million, or \$4.44 per diluted share, respectively. The adjusted figures for the year ended December 31, 2015 exclude a deferred income tax expense of \$42 million (\$0.05 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate that was recorded in the second quarter.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2016 and 2015, to the adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net income as reported	\$ 1,018	\$ 941	\$ 3,640	\$ 3,538
<i>Adjustments:</i>				
Other income	(76)	-	(76)	-
Income tax expense	10	-	17	42
Adjusted net income	\$ 952	\$ 941	\$ 3,581	\$ 3,580
Basic earnings per share as reported	\$ 1.33	\$ 1.19	\$ 4.69	\$ 4.42
<i>Impact of adjustments, per share</i>	(0.09)	-	(0.08)	0.05
Adjusted basic earnings per share	\$ 1.24	\$ 1.19	\$ 4.61	\$ 4.47
Diluted earnings per share as reported	\$ 1.32	\$ 1.18	\$ 4.67	\$ 4.39
<i>Impact of adjustments, per share</i>	(0.09)	-	(0.08)	0.05
Adjusted diluted earnings per share	\$ 1.23	\$ 1.18	\$ 4.59	\$ 4.44

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 foreign exchange rates of the comparable period of the prior year. The average foreign exchange rate was \$1.33 per US\$1.00 for both the three months and year ended December 31, 2016, and \$1.33 and \$1.28 per US\$1.00 respectively, for the three months and year ended December 31, 2015.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2016 would have been lower by \$3 million (unchanged per diluted share) and \$85 million (\$0.11 per diluted share), respectively.

Free cash flow

Management believes that 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 changes in restricted cash and cash equivalents and the impact of major acquisitions, if any. 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 as reported for the years ended December 31, 2016 and 2015, to free cash flow:

<i>In millions</i>	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net cash provided by operating activities	\$ 1,378	\$ 1,293	\$ 5,202	\$ 5,140
Net cash used in investing activities	(597)	(661)	(2,655)	(2,827)
<i>Net cash provided before financing activities</i>	781	632	2,547	2,313
<i>Adjustment: Change in restricted cash and cash equivalents</i>	(4)	-	(27)	60
Free cash flow	\$ 777	\$ 632	\$ 2,520	\$ 2,373

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (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 adjusted EBITDA. 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 to the adjusted measures presented below, which have been used to calculate the adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the year ended December 31,</i>		2016	2015
Debt	\$	10,937	\$	10,427
<i>Adjustment: Present value of operating lease commitments ⁽¹⁾</i>		533		607
<i>Adjusted debt</i>	\$	11,470	\$	11,034
Net income	\$	3,640	\$	3,538
Interest expense		480		439
Income tax expense		1,287		1,336
Depreciation and amortization		1,225		1,158
<i>EBITDA</i>		6,632		6,471
<i>Adjustments:</i>				
Other income		(95)		(47)
Deemed interest on operating leases		24		29
<i>Adjusted EBITDA</i>	\$	6,561	\$	6,453
<i>Adjusted debt-to-adjusted EBITDA multiple (times)</i>		1.75		1.71

(1) The operating lease commitments have been discounted using the Company's implicit interest rate for each of the periods presented.

Consolidated Statements of Income – unaudited

<i>In millions, except per share data</i>	Three months ended		Year ended	
	December 31		December 31	
	2016	2015	2016	2015
Revenues	\$ 3,217	\$ 3,166	\$ 12,037	\$ 12,611
Operating expenses				
Labor and fringe benefits	565	608	2,119	2,406
Purchased services and material	428	437	1,592	1,729
Fuel	312	304	1,051	1,285
Depreciation and amortization	310	290	1,225	1,158
Equipment rents	96	103	375	373
Casualty and other	111	70	363	394
Total operating expenses	1,822	1,812	6,725	7,345
Operating income	1,395	1,354	5,312	5,266
Interest expense	(123)	(119)	(480)	(439)
Other income	91	16	95	47
Income before income taxes	1,363	1,251	4,927	4,874
Income tax expense	(345)	(310)	(1,287)	(1,336)
Net income	\$ 1,018	\$ 941	\$ 3,640	\$ 3,538
Earnings per share				
Basic	\$ 1.33	\$ 1.19	\$ 4.69	\$ 4.42
Diluted	\$ 1.32	\$ 1.18	\$ 4.67	\$ 4.39
Weighted-average number of shares				
Basic	766.7	792.4	776.0	800.7
Diluted	770.1	796.3	779.2	805.1
Dividends declared per share	\$ 0.3750	\$ 0.3125	\$ 1.5000	\$ 1.2500

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

<i>In millions</i>	Three months ended		Year ended	
	December 31		December 31	
	2016	2015	2016	2015
Net income	\$ 1,018	\$ 941	\$ 3,640	\$ 3,538
Other comprehensive income (loss)				
Net gain (loss) on foreign currency translation	57	73	(45)	249
Net change in pension and other postretirement benefit plans	(826)	134	(694)	306
Other comprehensive income (loss) before income taxes	(769)	207	(739)	555
Income tax recovery	242	9	148	105
Other comprehensive income (loss)	(527)	216	(591)	660
Comprehensive income	\$ 491	\$ 1,157	\$ 3,049	\$ 4,198

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

<i>In millions</i>	December 31 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 176	\$ 153
Restricted cash and cash equivalents	496	523
Accounts receivable	875	878
Material and supplies	363	355
Other current assets	197	244
<i>Total current assets</i>	2,107	2,153
Properties	33,755	32,624
Pension asset	907	1,305
Intangible and other assets	288	320
Total assets	\$ 37,057	\$ 36,402
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other	\$ 1,519	\$ 1,556
Current portion of long-term debt	1,489	1,442
<i>Total current liabilities</i>	3,008	2,998
Deferred income taxes	8,473	8,105
Other liabilities and deferred credits	593	644
Pension and other postretirement benefits	694	720
Long-term debt	9,448	8,985
Shareholders' equity		
Common shares	3,730	3,705
Common shares in Share Trusts	(137)	(100)
Additional paid-in capital	364	475
Accumulated other comprehensive loss	(2,358)	(1,767)
Retained earnings	13,242	12,637
<i>Total shareholders' equity</i>	14,841	14,950
Total liabilities and shareholders' equity	\$ 37,057	\$ 36,402

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

<i>In millions</i>	Number of common shares		Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	
	Outstanding	Share Trusts						Common Shares
<i>Balance at December 31, 2014</i>	809.4	-	\$ 3,718	\$ -	\$ 439	\$ (2,427)	\$ 11,740	\$ 13,470
Net income						3,538		3,538
Stock options exercised	2.5		91		(17)			74
Settlement of equity settled awards			4		(8)			(4)
Stock-based compensation expense					61	(3)		58
Share repurchase programs	(23.3)		(108)			(1,642)		(1,750)
Share purchases by Share Trusts	(1.4)	1.4		(100)				(100)
Other comprehensive income						660		660
Dividends (\$1.25 per share)						(996)		(996)
<i>Balance at December 31, 2015</i>	787.2	1.4	3,705	(100)	475	(1,767)	12,637	14,950
Net income						3,640		3,640
Stock options exercised	1.6		73		(12)			61
Settlement of equity settled awards			79		(138)			(59)
Stock-based compensation expense					62	(3)		59
Share repurchase programs	(26.4)		(127)			(1,873)		(2,000)
Share purchases by Share Trusts	(0.7)	0.7		(60)				(60)
Share settlements by Share Trusts	0.3	(0.3)		23	(23)			-
Other comprehensive loss						(591)		(591)
Dividends (\$1.50 per share)						(1,159)		(1,159)
<i>Balance at December 31, 2016</i>	762.0	1.8	\$ 3,730	\$ (137)	\$ 364	\$ (2,358)	\$ 13,242	\$ 14,841

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

<i>In millions</i>	Three months ended		Year ended	
	December 31		December 31	
	2016	2015	2016	2015
Operating activities				
Net income	\$ 1,018	\$ 941	\$ 3,640	\$ 3,538
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	310	290	1,225	1,158
Deferred income taxes	240	237	704	600
Gain on disposal of property	(76)	-	(76)	-
Changes in operating assets and liabilities:				
Accounts receivable	5	93	(3)	188
Material and supplies	44	77	(2)	4
Accounts payable and other	(76)	(348)	(51)	(282)
Other current assets	(20)	45	21	46
Pensions and other, net	(67)	(42)	(256)	(112)
<i>Net cash provided by operating activities</i>	1,378	1,293	5,202	5,140
Investing activities				
Property additions	(666)	(642)	(2,695)	(2,706)
Disposal of property	85	-	85	-
Change in restricted cash and cash equivalents	4	-	27	(60)
Other, net	(20)	(19)	(72)	(61)
<i>Net cash used in investing activities</i>	(597)	(661)	(2,655)	(2,827)
Financing activities				
Issuance of debt	-	-	1,509	841
Repayment of debt	(439)	(636)	(955)	(752)
Net issuance of commercial paper	401	306	137	451
Settlement of foreign exchange forward contracts on long-term debt	(6)	-	(21)	-
Issuance of common shares for stock options exercised	15	57	61	79
Withholding taxes remitted on the net settlement of equity settled awards	(4)	(1)	(44)	(2)
Repurchase of common shares	(446)	(498)	(1,992)	(1,742)
Purchase of common shares for settlement of equity settled awards	(1)	-	(15)	(2)
Purchase of common shares by Share Trusts	(60)	-	(60)	(100)
Dividends paid	(287)	(246)	(1,159)	(996)
<i>Net cash used in financing activities</i>	(827)	(1,018)	(2,539)	(2,223)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	7	2	15	11
<i>Net increase (decrease) in cash and cash equivalents</i>	(39)	(384)	23	101
Cash and cash equivalents, beginning of period	215	537	153	52
<i>Cash and cash equivalents, end of period</i>	\$ 176	\$ 153	\$ 176	\$ 153
Supplemental cash flow information				
Interest paid	\$ (113)	\$ (133)	\$ (470)	\$ (432)
Income taxes paid	\$ (87)	\$ (144)	\$ (653)	\$ (725)

See accompanying notes to unaudited consolidated financial statements.

1 – Basis of presentation

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 expected results for the full year.

These unaudited Interim Consolidated Financial Statements have been prepared using accounting policies consistent with those used in preparing Canadian National Railway's 2015 Annual Consolidated Financial Statements and should be read in conjunction with such statements and Notes thereto.