Adjusted performance measures

For the three months and year ended December 31, 2013, the Company reported adjusted net income of $635 million, or $0.76 per diluted share and $2,582 million, or $3.06 per diluted share, respectively. The adjusted figures for the year ended December 31, 2013 exclude a gain on exchange of perpetual railroad operating easements including the track and roadway assets on specific rail lines, of $29 million, or $18 million after-tax ($0.02 per diluted share); and a gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements, of $40 million, or $36 million after-tax ($0.04 per diluted share). The adjusted figures also exclude a $24 million ($0.03 per diluted share) income tax expense resulting from the enactment of higher provincial corporate income tax rates.

For the three months and year ended December 31, 2012, the Company reported adjusted net income of $610 million, or $0.71 per diluted share and $2,456 million, or $2.81 per diluted share, respectively. The adjusted figures for the year ended December 31, 2012 exclude a gain on disposal of a segment of the Bala and a segment of the Oakville subdivisions, together with the rail fixtures and certain passenger agreements, of $281 million, or $252 million after-tax ($0.28 per diluted share); and a net income tax expense of $28 million ($0.03 per diluted share) consisting of a $35 million income tax expense resulting from the enactment of higher provincial corporate income tax rates that was partly offset by a $7 million income tax recovery resulting from the recapitalization of a foreign investment.

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 the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2013 Annual Consolidated Financial Statements, Notes thereto and Management's Discussion and Analysis (MD&A). The following tables provide a reconciliation of net income and earnings per share, as reported for the three months and year ended December 31, 2013 and 2012, to the adjusted performance measures presented herein.

	Three months ended December 31, 2013			Year ended December 31, 2013		
In millions, except per share data	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	$ 2,745	$ -	$ 2,745	$ 10,575	$ -	$ 10,575
Operating expenses	1,778	-	1,778	6,702	-	6,702
Operating income	967	-	967	3,873	-	3,873
Interest expense	(91)	-	(91)	(357)	-	(357)
Other income (loss)	(2)	-	(2)	73	(69)	4
Income before income taxes	874	-	874	3,589	(69)	3,520
Income tax expense	(239)	-	(239)	(977)	39	(938)
Net income	**$ 635**	**$ -**	**$ 635**	**$ 2,612**	**$ (30)**	**$ 2,582**
Operating ratio	**64.8%**		**64.8%**	**63.4%**		**63.4%**
Effective tax rate	**27.3%**		**27.3%**	**27.2%**		**26.6%**
Basic earnings per share	**$ 0.76**	**$ -**	**$ 0.76**	**$ 3.10**	**$ (0.03)**	**$ 3.07**
Diluted earnings per share	**$ 0.76**	**$ -**	**$ 0.76**	**$ 3.09**	**$ (0.03)**	**$ 3.06**

CANADIAN NATIONAL RAILWAY COMPANY

NON-GAAP MEASURES - unaudited

In millions, except per share data	Three months ended December 31, 2012 Reported	Adjustments	Adjusted	Year ended December 31, 2012 Reported	Adjustments	Adjusted
Revenues	$ 2,534	$ -	$ 2,534	$ 9,920	$ -	$ 9,920
Operating expenses	1,612	-	1,612	6,235	-	6,235
Operating income	922	-	922	3,685	-	3,685
Interest expense	(86)	-	(86)	(342)	-	(342)
Other income (loss)	(5)	-	(5)	315	(281)	34
Income before income taxes	831	-	831	3,658	(281)	3,377
Income tax expense	(221)	-	(221)	(978)	57	(921)
Net income	**$ 610**	**$ -**	**$ 610**	**$ 2,680**	**$ (224)**	**$ 2,456**
Operating ratio	**63.6%**		**63.6%**	**62.9%**		**62.9%**
Effective tax rate	**26.6%**		**26.6%**	**26.7%**		**27.3%**
Basic earnings per share	**$ 0.71**	**$ -**	**$ 0.71**	**$ 3.08**	**$ (0.26)**	**$ 2.82**
Diluted earnings per share	**$ 0.71**	**$ -**	**$ 0.71**	**$ 3.06**	**$ (0.25)**	**$ 2.81**

Constant currency

Although CN conducts its business and reports its earnings in Canadian dollars, a large portion of revenues and expenses is denominated in US dollars. As such, the Company's results are affected by exchange-rate fluctuations.

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 rates were $1.05 and $1.03 per US$1.00, respectively, for the three months and year ended December 31, 2013, and $0.99 and $1.00 per US$1.00, respectively, for the corresponding periods in 2012.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2013 would have been lower by $19 million, or $0.02 per diluted share and $37 million, or $0.04 per diluted share, respectively. The following table presents a reconciliation of 2013 net income as reported to net income on a constant currency basis:

In millions	Three months ended December 31, 2013	Year ended December 31, 2013
Net income, as reported	$ 635	$ 2,612
Add back:		
Positive impact due to the weakening Canadian dollar included in net income	**(18)**	**(33)**
Add:		
Decrease due to the weakening Canadian dollar on additional year-over-year US$ net income	**(1)**	**(4)**
Impact of foreign exchange using constant currency rates	**(19)**	**(37)**
Net income, on a constant currency basis	$ 616	$ 2,575

CANADIAN NATIONAL RAILWAY COMPANY

NON-GAAP MEASURES - unaudited

Free cash flow

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 Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash. In the past, the Company defined free cash flow 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, the payment of dividends, changes in cash and cash equivalents resulting from foreign exchange fluctuations, and the impact of major acquisitions, if any.

Beginning with the fourth quarter of 2013, the Company has redefined 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. The Company believes that free cash flow, as redefined, is a better measure of the Company's available cash for debt obligations and for discretionary uses such as payment of dividends and strategic opportunities.

	Three months ended December 31		Year ended December 31	
In millions	**2013**	2012	**2013**	2012
Net cash provided by operating activities	**$ 1,098**	$ 724	**$ 3,548**	$ 3,060
Net cash used in investing activities	**(701)**	(597)	**(1,852)**	(1,421)
Net cash provided before financing activities	**397**	127	**1,696**	1,639
Adjustment:				
Change in restricted cash and cash equivalents	**(81)**	3	**(73)**	22
Free cash flow	**$ 316**	$ 130	**$ 1,623**	$ 1,661
Dividends paid	**(179)**	(161)	**(724)**	(652)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**3**	1	**19**	(3)
Free cash flow – as previously defined	**$ 140**	$ (30)	**$ 918**	$ 1,006

Credit measures

Management believes that the adjusted debt-to-total capitalization ratio is a useful credit measure that aims to show the true leverage of the Company. Similarly, the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple is another useful credit measure because it reflects the Company's ability to service its debt. The Company excludes Other income in the calculation of EBITDA. However, since these measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies and, as such, should not be considered in isolation.

Adjusted debt-to-total capitalization ratio

December 31,	**2013**	2012
Debt-to-total capitalization ratio (1)	**37.7%**	38.5%
Add: Impact of present value of operating lease commitments (2)	**1.7%**	1.9%
Adjusted debt-to-total capitalization ratio	**39.4%**	40.4%

Adjusted debt-to-adjusted EBITDA

$ in millions, unless otherwise indicated — *Twelve months ended December 31,*	**2013**	2012
Debt	**$ 7,840**	$ 6,900
Add: Present value of operating lease commitments (2)	**570**	559
Adjusted debt	**8,410**	7,459
Operating income	**3,873**	3,685
Add: Depreciation and amortization	**980**	924
EBITDA (excluding Other income)	**4,853**	4,609
Add: Deemed interest on operating leases	**28**	29
Adjusted EBITDA	**$ 4,881**	$ 4,638
Adjusted debt-to-adjusted EBITDA	**1.72 times**	1.61 times

(1) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt, divided by the sum of total debt plus total shareholders' equity.

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