Non-GAAP Measures - unaudited

All financial information included in this supplementary schedule is expressed in Canadian dollars, unless otherwise noted.

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 the normal day-to-day operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively 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.

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.

For the three months and year ended December 31, 2014, the Company reported adjusted net income of $844 million, or $1.03 per diluted share and $3,095 million, or $3.76 per diluted share, respectively. The adjusted figures for the year ended December 31, 2014 exclude a gain on disposal of the Deux-Montagnes subdivision, including the Mont-Royal tunnel, together with the rail fixtures, of $80 million, or $72 million after-tax ($0.09 per diluted share).

The following table provides a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2015 and 2014, to the adjusted performance measures presented herein.

	Three months ended December 31		Year ended December 31	
In millions, except per share data	**2015**	2014	**2015**	2014
Net income as reported	**$ 941**	$ 844	**$ 3,538**	$ 3,167
Adjustments:				
Other income	**-**	-	**-**	(80)
Income tax expense	**-**	-	**42**	8
Adjusted net income	**$ 941**	$ 844	**$ 3,580**	$ 3,095
Basic earnings per share as reported	**$ 1.19**	$ 1.04	**$ 4.42**	$ 3.86
Impact of adjustments, per share	**-**	-	**0.05**	(0.09)
Adjusted basic earnings per share	**$ 1.19**	$ 1.04	**$ 4.47**	$ 3.77
Diluted earnings per share as reported	**$ 1.18**	$ 1.03	**$ 4.39**	$ 3.85
Impact of adjustments, per share	**-**	-	**0.05**	(0.09)
Adjusted diluted earnings per share	**$ 1.18**	$ 1.03	**$ 4.44**	$ 3.76

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 rates were $1.33 and $1.28 per US$1.00, respectively, for the three months and year ended December 31, 2015, and $1.14 and $1.10 per US$1.00, respectively, for the three months and year ended December 31, 2014.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2015 would have been lower by $87 million ($0.11 per diluted share) and $314 million ($0.39 per diluted share), respectively.

Free cash flow

Free cash flow is a non-GAAP measure that is reported as a supplementary indicator of the Company's performance. Management believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends 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.

	Three months ended December 31		**Year ended December 31**	
In millions	**2015**	2014	**2015**	2014
Net cash provided by operating activities	**$ 1,293**	$ 1,135	**$ 5,140**	$ 4,381
Net cash used in investing activities	**(661)**	(956)	**(2,827)**	(2,176)
Net cash provided before financing activities	**632**	179	**2,313**	2,205
Adjustment: Change in restricted cash and cash equivalents	**-**	(4)	**60**	15
Free cash flow	**$ 632**	$ 175	**$ 2,373**	$ 2,220

Non-GAAP Measures - unaudited

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

Adjusted debt-to-total capitalization ratio

December 31,	**2015**	2014
Debt-to-total capitalization ratio (1) (2)	**41.1%**	38.3%
Add: Impact of present value of operating lease commitments (3)	**1.4%**	1.7%
Adjusted debt-to-total capitalization ratio	**42.5%**	40.0%

Adjusted debt-to-adjusted EBITDA multiple

In millions, unless otherwise indicated	*Twelve months ended December 31,*	**2015**	2014
Debt (2)		**$ 10,427**	$ 8,372
Add: Present value of operating lease commitments (3)		**607**	607
Adjusted debt		**$ 11,034**	$ 8,979
Operating income		**$ 5,266**	$ 4,624
Add: Depreciation and amortization		**1,158**	1,050
EBITDA (excluding Other income)		**6,424**	5,674
Add: Deemed interest on operating leases		**29**	28
Adjusted EBITDA		**$ 6,453**	$ 5,702
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**1.71**	1.57

(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) As a result of the retrospective adoption of a new accounting standard in the fourth quarter of 2015, the 2014 debt balance has been adjusted and the related financial ratios have been restated. See Note 2 – Accounting changes to the Company's 2015 unaudited Interim Consolidated Financial Statements for additional information.

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

The increase in the Company's adjusted debt-to-total capitalization ratio at December 31, 2015, as compared to 2014, was mainly due to an increased debt level, reflecting a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date and the net issuance of commercial paper. The Company's adjusted debt-to-adjusted EBITDA multiple also increased, which was driven by the increased debt level as at December 31, 2015, partly offset by a higher operating income earned during 2015, as compared to 2014.