Non-GAAP Measures – unaudited

In this 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). CN's Annual General Meeting of Shareholders presentation also includes non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore, 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, adjusted earnings per share, adjusted operating income and adjusted operating ratio 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 CN's performance. The exclusion of such income and expense items in these measures does not, however, imply that these items are necessarily non-recurring.

The following table provides a reconciliation of net income and earnings per share, as reported for the periods specified, to the adjusted performance measures presented herein:

In millions, except per share data *Year ended December 31,*	**2018**	2017	2016	2015	2014
Net income	**$ 4,328**	$ 5,484	$ 3,640	$ 3,538	$ 3,167
Adjustments:					
Operating expenses	**27**	—	—	—	—
Other income	**(338)**	—	(76)	—	(80)
Income tax expense (recovery) (1)	**39**	(1,706)	17	42	8
Adjusted net income	**$ 4,056**	$ 3,778	$ 3,581	$ 3,580	$ 3,095
Basic earnings per share	**$ 5.89**	$ 7.28	$ 4.69	$ 4.42	$ 3.86
Impact of adjustments, per share	**(0.37)**	(2.26)	(0.08)	0.05	(0.09)
Adjusted basic earnings per share	**$ 5.52**	$ 5.02	$ 4.61	$ 4.47	$ 3.77
Diluted earnings per share	**$ 5.87**	$ 7.24	$ 4.67	$ 4.39	$ 3.85
Impact of adjustments, per share	**(0.37)**	(2.25)	(0.08)	0.05	(0.09)
Adjusted diluted earnings per share	**$ 5.50**	$ 4.99	$ 4.59	$ 4.44	$ 3.76

(1) The tax effect of adjustments reflects tax rates in the applicable jurisdiction and the nature of the item for tax purposes.

The following table provides a reconciliation of operating income and operating ratio, as reported for the periods specified, to the adjusted performance measures presented herein:

In millions, except percentage *Year ended December 31,*	**2018**	2017	2016	2015	2014
Operating income	**$ 5,493**	$ 5,243	$ 5,032	$ 5,155	$ 4,498
Adjustment: Operating expenses	**27**	—	—	—	—
Adjusted operating income	**$ 5,520**	$ 5,243	$ 5,032	$ 5,155	$ 4,498
Operating ratio (1)	**61.6%**	59.8%	58.2%	59.1%	62.9%
Impact of adjustment	**(0.1)-pts**	—	—	—	—
Adjusted operating ratio	**61.5%**	59.8%	58.2%	59.1%	62.9%

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

Non-GAAP Measures – unaudited

For the year ended December 31, 2018, the Company reported adjusted net income of $4,056 million, or $5.50 per diluted share, which excludes employee termination benefits and severance costs related to a workforce reduction program of $27 million, or $20 million after-tax ($0.03 per diluted share) in the fourth quarter and the gains on disposals of property of $338 million, or $292 million after-tax ($0.40 per diluted share), consisting of the following:

- in the fourth quarter, a gain previously deferred on the 2014 disposal of a segment of the Guelph subdivision located between Georgetown and Kitchener, Ontario, together with the rail fixtures and certain passenger agreements (the "Guelph"), of $79 million, or $70 million after-tax ($0.10 per diluted share);
- in the third quarter, a gain on disposal of property located in Montreal, Quebec (the "Doney and St-Francois Spurs") of $36 million, or $32 million after-tax ($0.04 per diluted share); and
- in the second quarter, a gain on transfer of the Company's capital lease in the passenger rail facilities in Montreal, Quebec, together with its interests in related railway operating agreements (the "Central Station Railway Lease"), of $184 million, or $156 million after-tax ($0.21 per diluted share), and a gain on disposal of land located in Calgary, Alberta, excluding the rail fixtures (the "Calgary Industrial Lead"), of $39 million, or $34 million after-tax ($0.05 per diluted share).

For the year ended December 31, 2017, the Company reported adjusted net income of $3,778 million, or $4.99 per diluted share, which excludes a net deferred income tax recovery of $1,706 million ($2.25 per diluted share) consisting of the following:

- in the fourth quarter, a deferred income tax recovery of $1,764 million ($2.33 per diluted share) resulting from the enactment of the U.S. *Tax Cuts and Job Acts* and a deferred income tax expense of $50 million ($0.07 per diluted share) resulting from the enactment of higher provincial corporate income tax rates;
- in the third quarter, a deferred income tax expense of $31 million ($0.04 per diluted share) resulting from the enactment of a higher state corporate income tax rate;
- in the second quarter, a deferred income tax recovery of $18 million ($0.02 per diluted share) resulting from the enactment of a lower provincial corporate income tax rate; and
- in the first quarter, a deferred income tax recovery of $5 million ($0.01 per diluted share) resulting from the enactment of a lower provincial corporate income tax rate.

For the year ended December 31, 2016, the Company reported adjusted net income of $3,581 million, or $4.59 per diluted share, which excludes a gain on disposal of 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) in the fourth quarter, and a deferred income tax expense of $7 million ($0.01 per diluted share) in the second quarter, resulting from the enactment of a higher provincial corporate income tax rate.

For the year ended December 31, 2015, the Company reported adjusted net income of $3,580 million, or $4.44 per diluted share, which excludes a deferred income tax expense of $42 million ($0.05 per diluted share) in the second quarter, resulting from the enactment of a higher provincial corporate income tax rate.

For the year ended December 31, 2014, the Company reported adjusted net income of $3,095 million, or $3.76 per diluted share, which excludes a gain on disposal of the Deux-Montagnes subdivision, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), of $80 million, or $72 million after-tax ($0.09 per diluted share) in the first quarter.

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. 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 $1.296 and $1.298 per US$1.00 for the years ended December 31, 2018 and 2017, respectively.

On a constant currency basis, the Company's net income for the year ended December 31, 2018 would have been higher by $4 million ($0.01 per diluted share).

Non-GAAP Measures – unaudited

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 the impact of business acquisitions, if any.

The following table provides a reconciliation of net cash provided by operating activities, as reported for the periods specified, to free cash flow:

In millions *Year ended December 31,*	**2018**	2017	2016	2015	2014
Net cash provided by operating activities	**$ 5,918**	$ 5,516	$ 5,202	$ 5,140	$ 4,381
Net cash used in investing activities	**(3,404)**	(2,738)	(2,682)	(2,767)	(2,161)
Free cash flow	**$ 2,514**	$ 2,778	$ 2,520	$ 2,373	$ 2,220

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.

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:

In millions, unless otherwise indicated *As at and for the year ended December 31,*	**2018**	2017
Debt	**$ 12,569**	$ 10,828
Adjustments:		
Present value of operating lease commitments [1]	**579**	478
Pension plans in deficiency	**477**	455
Adjusted debt	**$ 13,625**	$ 11,761
Net income	**$ 4,328**	$ 5,484
Interest expense	**489**	481
Income tax expense (recovery)	**1,354**	(395)
Depreciation and amortization	**1,329**	1,281
EBITDA	**7,500**	6,851
Adjustments:		
Other income	**(376)**	(12)
Other components of net periodic benefit income	**(302)**	(315)
Operating lease expense	**218**	191
Adjusted EBITDA	**$ 7,040**	$ 6,715
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**1.94**	1.75

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