Adjusted performance measures

For the three and six months ended June 30, 2013, the Company reported adjusted net income of $704 million, or $1.66 per diluted share and $1,223 million, or $2.87 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2013 exclude an income tax expense of $5 million ($0.01 per diluted share) resulting from the enactment of higher provincial corporate income tax rates and a gain on exchange of perpetual railroad operating easements including the track and roadway assets on specific rail lines (collectively the "exchange of easements") in the amount of $29 million, or $18 million after-tax ($0.04 per diluted share). The adjusted figures for the six months ended June 30, 2013 also exclude a gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements (collectively the "Lakeshore West"), of $40 million, or $36 million after-tax ($0.08 per diluted share).

For the three and six months ended June 30, 2012, the Company reported adjusted net income of $659 million, or $1.50 per diluted share and $1,182 million, or $2.67 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2012 exclude a net income tax expense of $28 million ($0.06 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. The adjusted figures for the six months ended June 30, 2012 also 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 (collectively the "Bala-Oakville"), of $281 million, or $252 million after-tax ($0.57 per diluted share).

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 may, therefore, not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2013 unaudited Interim Consolidated Financial Statements and Notes thereto. The following tables provide a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2013 and 2012, to the adjusted performance measures presented herein.

	Three months ended June 30, 2013			Six months ended June 30, 2013		
In millions, except per share data	**Reported**	**Adjustments**	**Adjusted**	**Reported**	**Adjustments**	**Adjusted**
Revenues	$ 2,666	$ -	$ 2,666	$ 5,132	$ -	$ 5,132
Operating expenses	1,624	-	1,624	3,310	-	3,310
Operating income	1,042	-	1,042	1,822	-	1,822
Interest expense	(88)	-	(88)	(177)	-	(177)
Other income	28	(29)	(1)	70	(69)	1
Income before income taxes	982	(29)	953	1,715	(69)	1,646
Income tax expense	(265)	16	(249)	(443)	20	(423)
Net income	**$ 717**	**$ (13)**	**$ 704**	**$ 1,272**	**$ (49)**	**$ 1,223**
Operating ratio	**60.9%**		**60.9%**	**64.5%**		**64.5%**
Effective tax rate	**27.0%**		**26.1%**	**25.8%**		**25.7%**
Basic earnings per share	**$ 1.69**	**$ (0.03)**	**$ 1.66**	**$ 2.99**	**$ (0.11)**	**$ 2.88**
Diluted earnings per share	**$ 1.69**	**$ (0.03)**	**$ 1.66**	**$ 2.98**	**$ (0.11)**	**$ 2.87**

CANADIAN NATIONAL RAILWAY COMPANY
NON-GAAP MEASURES - unaudited

In millions, except per share data	Three months ended June 30, 2012 Reported	Adjustments	Adjusted	Six months ended June 30, 2012 Reported	Adjustments	Adjusted
Revenues	$ 2,543	$ -	$ 2,543	$ 4,889	$ -	$ 4,889
Operating expenses	1,558	-	1,558	3,111	-	3,111
Operating income	985	-	985	1,778	-	1,778
Interest expense	(86)	-	(86)	(172)	-	(172)
Other income	9	-	9	302	(281)	21
Income before income taxes	908	-	908	1,908	(281)	1,627
Income tax expense	(277)	28	(249)	(502)	57	(445)
Net income	**$ 631**	**$ 28**	**$ 659**	**$ 1,406**	**$ (224)**	**$ 1,182**
Operating ratio	**61.3%**		**61.3%**	**63.6%**		**63.6%**
Effective tax rate	**30.5%**		**27.4%**	**26.3%**		**27.4%**
Basic earnings per share	**$ 1.44**	**$ 0.06**	**$ 1.50**	**$ 3.20**	**$ (0.51)**	**$ 2.69**
Diluted earnings per share	**$ 1.44**	**$ 0.06**	**$ 1.50**	**$ 3.18**	**$ (0.51)**	**$ 2.67**

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 may, therefore, 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 $1.02 per US$1.00 for both the three and six months ended June 30, 2013, and $1.01 per US$1.00 for both the three and six months ended June 30, 2012.

On a constant currency basis, the Company's 2013 second quarter and first half net income would have both been lower by $4 million, or $0.01 per diluted share. 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 June 30, 2013	Six months ended June 30, 2013
Net income, as reported	$ 717	$ 1,272
Add back:		
Positive impact due to the weakening Canadian dollar included in net income	(3)	(3)
Add:		
Decrease due to the weakening Canadian dollar on additional year-over-year US$ net income	(1)	(1)
Impact of foreign exchange using constant currency rates	(4)	(4)
Net income, on a constant currency basis	$ 713	$ 1,268

Free cash flow

The Company generated $457 million and $437 million of free cash flow for the three and six months ended June 30, 2013, respectively, compared to $655 million and $703 million for the same periods in 2012, respectively. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, 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 after the payment of capital expenditures and dividends. The Company defines free cash flow as the sum of net cash provided by operating activities, adjusted for changes in cash and cash equivalents resulting from foreign exchange fluctuations; and net cash provided by (used in) investing activities, adjusted for changes in restricted cash and cash equivalents, if any, the impact of major acquisitions, if any; and the payment of dividends, calculated as follows:

	Three months ended June 30		Six months ended June 30	
In millions	**2013**	2012	**2013**	2012
Net cash provided by operating activities	**$ 1,063**	$ 1,211	**$ 1,384**	$ 1,336
Net cash used in investing activities	**(411)**	(366)	**(572)**	(277)
Net cash provided before financing activities	**652**	845	**812**	1,059
Adjustments:				
Dividends paid	**(182)**	(163)	**(365)**	(328)
Change in restricted cash and cash equivalents	**(15)**	(27)	**(24)**	(27)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**2**	-	**14**	(1)
Free cash flow	**$ 457**	$ 655	**$ 437**	$ 703

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

June 30,	**2013**	2012
Debt-to-total capitalization ratio (1)	**39.6%**	37.8%
Add: Present value of operating lease commitments (2)	**1.9%**	1.8%
Adjusted debt-to-total capitalization ratio	**41.5%**	39.6%

Adjusted debt-to-adjusted EBITDA

$ in millions, unless otherwise indicated — *Twelve months ended June 30,*	**2013**	2012
Debt	**$ 7,463**	$ 6,775
Add: Present value of operating lease commitments (2)	**610**	542
Adjusted debt	**8,073**	7,317
Operating income	**3,729**	3,555
Add: Depreciation and amortization	**949**	909
EBITDA (excluding Other income)	**4,678**	4,464
Add: Deemed interest on operating leases	**32**	30
Adjusted EBITDA	**$ 4,710**	$ 4,494
Adjusted debt-to-adjusted EBITDA	**1.71 times**	1.63 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.