Non-GAAP Measures – unaudited

This supplementary schedule 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.

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 and six months ended June 30, 2016, the Company reported adjusted net income of $865 million, or $1.11 per diluted share, and $1,657 million, or $2.11 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2016 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.

For the three and six months ended June 30, 2015, the Company reported adjusted net income of $928 million, or $1.15 per diluted share, and $1,632 million, or $2.01 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 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.

The following table provides a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2016 and 2015, to the adjusted performance measures presented herein:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2016**	2015	**2016**	2015
Net income as reported	**$ 858**	$ 886	**$ 1,650**	$ 1,590
Adjustment: Income tax expense	**7**	42	**7**	42
Adjusted net income	**$ 865**	$ 928	**$ 1,657**	$ 1,632
Basic earnings per share as reported	**$ 1.10**	$ 1.10	**$ 2.11**	$ 1.97
Impact of adjustment, per share	**0.01**	0.05	**0.01**	0.05
Adjusted basic earnings per share	**$ 1.11**	$ 1.15	**$ 2.12**	$ 2.02
Diluted earnings per share as reported	**$ 1.10**	$ 1.10	**$ 2.10**	$ 1.96
Impact of adjustment, per share	**0.01**	0.05	**0.01**	0.05
Adjusted diluted earnings per share	**$ 1.11**	$ 1.15	**$ 2.11**	$ 2.01

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 $1.29 and $1.33 per US$1.00, respectively, for the three and six months ended June 30, 2016, and $1.23 per US$1.00, for both the three and six months ended June 30, 2015.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2016 would have been lower by $23 million ($0.03 per diluted share) and $80 million ($0.10 per diluted share), respectively.

Non-GAAP Measures – unaudited

Free cash flow

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, 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 three and six months ended June 30, 2016 and 2015, to free cash flow:

	Three months ended June 30		Six months ended June 30	
In millions	**2016**	2015	**2016**	2015
Net cash provided by operating activities	**$ 1,271**	$ 1,203	**$ 2,336**	$ 2,195
Net cash used in investing activities	**(674)**	(662)	**(1,154)**	(1,143)
Net cash provided before financing activities	**597**	541	**1,182**	1,052
Adjustment: Change in restricted cash and cash equivalents	**(12)**	(11)	**(13)**	(1)
Free cash flow	**$ 585**	$ 530	**$ 1,169**	$ 1,051

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. 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:

In millions, unless otherwise indicated — *As at and for the twelve months ended June 30,*	**2016**	2015
Debt (1)	**$ 10,322**	$ 9,308
Adjustment: Present value of operating lease commitments (2)	**561**	647
Adjusted debt	**$ 10,883**	$ 9,955
Net income	**$ 3,598**	$ 3,287
Interest expense	**469**	397
Income tax expense	**1,315**	1,318
Depreciation and amortization	**1,180**	1,118
EBITDA	**6,562**	6,120
Adjustments:		
Other income	**(31)**	(31)
Deemed interest on operating leases	**27**	30
Adjusted EBITDA	**$ 6,558**	$ 6,119
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**1.66**	1.63

(1) As a result of the retrospective adoption of a new accounting standard in the fourth quarter of 2015, the prior period debt balance has been adjusted. There was no impact to the related financial ratio. See Note 2 - Recent accounting pronouncements to the Company's 2015 Annual Consolidated Financial Statements for additional information.

(2) 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-adjusted EBITDA multiple at June 30, 2016, as compared to the same period in 2015, was mainly due to an increased debt level as at June 30, 2016, resulting from the net issuance of debt and a weaker Canadian-to-US dollar foreign exchange rate, partly offset by a higher net income earned during the twelve months ended June 30, 2016, as compared to the twelve months ended June 30, 2015.