Non-GAAP Measures – unaudited

In this supplementary schedule, the "Company" or "CN" refers to Canadian National Railway Company and, as the context requires, 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). The Company also uses non-GAAP measures that do not have any standardized meaning prescribed by GAAP, including adjusted performance measures, constant currency, free cash flow, and adjusted debt-to-adjusted EBITDA multiple. These non-GAAP measures 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 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 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 items in adjusted net income and adjusted earnings per share does not, however, imply that these items are necessarily non-recurring. These 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 nine months ended September 30, 2018, the Company's adjusted net income was $1,102 million, or $1.50 per diluted share, and $2,963 million, or $4.01 per diluted share, respectively. The adjusted figures for the three months ended September 30, 2018 exclude 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). The adjusted figures for the nine months ended September 30, 2018 exclude a gain on disposal of the Doney and St-Francois Spurs of $36 million, or $32 million after-tax ($0.04 per diluted share) in the third quarter, and 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), both in the second quarter.

For the three and nine months ended September 30, 2017, the Company's adjusted net income was $989 million, or $1.31 per diluted share, and $2,881 million, or $3.79 per diluted share, respectively. The adjusted figures for the three months ended September 30, 2017 exclude 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. The adjusted figures for the nine months ended September 30, 2017 exclude a net deferred income tax expense of $8 million ($0.01 per diluted share) consisting of a deferred income tax expense of $31 million ($0.04 per diluted share) in the third quarter, resulting from the enactment of a higher state corporate income tax rate, and deferred income tax recoveries of $18 million ($0.02 per diluted share) in the second quarter and $5 million ($0.01 per diluted share) in the first quarter, both resulting from the enactment of lower provincial corporate income tax rates.

The following table provides a reconciliation of net income and earnings per share, as reported for the three and nine months ended September 30, 2018 and 2017, to the adjusted performance measures presented herein:

	Three months ended September 30		Nine months ended September 30	
In millions, except per share data	**2018**	2017	**2018**	2017
Net income as reported	**$ 1,134**	$ 958	**$ 3,185**	$ 2,873
Adjustments:				
Other income	**(36)**	—	**(259)**	—
Income tax expense [1]	**4**	31	**37**	8
Adjusted net income	**$ 1,102**	$ 989	**$ 2,963**	$ 2,881
Basic earnings per share as reported	**$ 1.55**	$ 1.28	**$ 4.32**	$ 3.80
Impact of adjustments, per share	**(0.04)**	0.04	**(0.30)**	0.01
Adjusted basic earnings per share	**$ 1.51**	$ 1.32	**$ 4.02**	$ 3.81
Diluted earnings per share as reported	**$ 1.54**	$ 1.27	**$ 4.31**	$ 3.78
Impact of adjustments, per share	**(0.04)**	0.04	**(0.30)**	0.01
Adjusted diluted earnings per share	**$ 1.50**	$ 1.31	**$ 4.01**	$ 3.79

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

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 in the prior year. The average foreign exchange rates were $1.31 and $1.29 per US$1.00 for the three and nine months ended September 30, 2018, respectively, and $1.25 and $1.31 per US $1.00 for the three and nine months ended September 30, 2017, respectively.

On a constant currency basis, the Company's net income for the three and nine months ended September 30, 2018 would have been lower by $26 million ($0.04 per diluted share) and higher by $28 million ($0.04 per diluted share), respectively.

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 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 to free cash flow for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30		Nine months ended September 30	
In millions	**2018**	2017	**2018**	2017
Net cash provided by operating activities	**$ 1,564**	$ 1,406	**$ 4,001**	$ 4,167
Net cash used in investing activities	**(979)**	(744)	**(2,120)**	(1,846)
Free cash flow	**$ 585**	$ 662	**$ 1,881**	$ 2,321

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. 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 September 30,*	**2018**	2017
Debt		**$ 11,894**	$ 10,414
Adjustments:			
Present value of operating lease commitments (1)		**495**	480
Pension plans in deficiency		**458**	436
Adjusted debt (2)		**$ 12,847**	$ 11,330
Net income		**$ 5,796**	$ 3,891
Interest expense		**484**	487
Income tax expense (recovery)		**(422)**	1,373
Depreciation and amortization		**1,299**	1,275
EBITDA		**7,157**	7,026
Adjustments:			
Other income		**(287)**	(99)
Other components of net periodic benefit income		**(305)**	(301)
Operating lease expense		**200**	196
Adjusted EBITDA (2)		**$ 6,765**	$ 6,822
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**1.90**	1.66

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

(2) In the first quarter of 2018, the Company redefined adjusted debt to include pension plans in deficiency, and adjusted EBITDA to exclude other components of net periodic benefit income and operating lease expense in order to better align the Company's definition of adjusted debt-to-adjusted EBITDA multiple with similar measures used by credit rating agencies. Comparative figures have been adjusted to conform to the current definition.