

## 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 Investor Day presentations also include non-GAAP measures that do not have any standardized meaning prescribed by GAAP, including adjusted earnings per share (EPS), adjusted dividend payout ratio, adjusted return on invested capital (ROIC) and free cash flow. 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, 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:

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

(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:

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

(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.

## Adjusted dividend payout ratio

Management believes that the adjusted dividend payout ratio is a useful measure of the Company's financial strength as it demonstrates the sustainability of the Company's dividend payments. The Company calculates the dividend payout ratio as dividends divided by net income. The Company calculates the adjusted dividend payout ratio as dividends divided by adjusted net income.

The following table provides the calculations of dividend payout ratio and adjusted dividend payout ratio:

<i>In millions, except percentage</i>	<i>Year ended December 31,</i>					
	<b>2018</b>	2017	2016	2015	2014	
Dividends	\$ 1,333	\$ 1,239	\$ 1,159	\$ 996	\$ 818	
Net income	<b>4,328</b>	5,484	3,640	3,538	3,167	
<i>Dividend payout ratio</i>	<b>30.8%</b>	22.6%	31.8%	28.2%	25.8%	
<i>Dividends</i>	\$ 1,333	\$ 1,239	\$ 1,159	\$ 996	\$ 818	
Adjusted net income <sup>(1)</sup>	\$ <b>4,056</b>	\$ 3,778	\$ 3,581	\$ 3,580	\$ 3,095	
<i>Adjusted dividend payout ratio</i>	<b>32.9%</b>	32.8%	32.4%	27.8%	26.4%	

(1) See the section entitled *Adjusted performance measures* for an explanation of this non-GAAP measure.

## Non-GAAP Measures – unaudited

### Return on invested capital (ROIC) and adjusted ROIC

Management believes that ROIC and adjusted ROIC are useful measures of the efficiency in the use of capital funds. The Company calculates ROIC as return divided by average invested capital. Return is defined as net income plus interest expense after tax, calculated using the Company's effective tax rate. Average invested capital is defined as the sum of total shareholders' equity, long-term debt and current portion of long-term debt less cash and cash equivalents, and restricted cash and cash equivalents, averaged between the beginning and ending balance over a twelve-month period. The Company calculates adjusted ROIC as adjusted return divided by average invested capital. Adjusted return is defined as adjusted net income plus interest expense after tax, calculated using the Company's effective tax rate, excluding the tax effect of adjustments used to determine adjusted net income.

The following table provides a reconciliation of net income and adjusted net income to return and adjusted return, respectively, as well as the calculation of average invested capital, which have been used to calculate ROIC and adjusted ROIC:

<i>In millions, except percentage</i>	<i>As at and for the year ended December 31,</i>	<b>2018</b>	2017	2016	2015	2014
Net income		\$ 4,328	\$ 5,484	\$ 3,640	\$ 3,538	\$ 3,167
Interest expense		489	481	480	439	371
Tax on interest expense <sup>(1)</sup>		(116)	(124)	(125)	(120)	(102)
<b>Return</b>		<b>\$ 4,701</b>	<b>\$ 5,841</b>	<b>\$ 3,995</b>	<b>\$ 3,857</b>	<b>\$ 3,436</b>
Average total shareholders' equity		\$ 17,149	\$ 15,749	\$ 14,896	\$ 14,210	\$ 13,212
Average long-term debt		10,067	9,098	9,217	8,407	7,305
Average current portion of long-term debt		1,632	1,785	1,466	993	783
Less: Average cash, cash equivalents, restricted cash and restricted cash equivalents		(656)	(613)	(674)	(596)	(589)
<b>Average invested capital</b>		<b>\$ 28,192</b>	<b>\$ 26,019</b>	<b>\$ 24,905</b>	<b>\$ 23,014</b>	<b>\$ 20,711</b>
<b>ROIC</b>		<b>16.7%</b>	<b>22.4%</b>	<b>16.0%</b>	<b>16.8%</b>	<b>16.6%</b>
Adjusted net income <sup>(2)</sup>		\$ 4,056	\$ 3,778	\$ 3,581	\$ 3,580	\$ 3,095
Interest expense		489	481	480	439	371
Adjusted tax on interest expense <sup>(3)</sup>		(120)	(124)	(126)	(116)	(103)
<b>Adjusted return</b>		<b>\$ 4,425</b>	<b>\$ 4,135</b>	<b>\$ 3,935</b>	<b>\$ 3,903</b>	<b>\$ 3,363</b>
Average invested capital		\$ 28,192	\$ 26,019	\$ 24,905	\$ 23,014	\$ 20,711
<b>Adjusted ROIC</b>		<b>15.7%</b>	<b>15.9%</b>	<b>15.8%</b>	<b>17.0%</b>	<b>16.2%</b>

(1) The effective tax rates from 2014 to 2018 used to calculate the tax on interest expense are 27.4%, 27.4%, 26.1%, 25.8% and 23.8%, respectively. Due to the negative effective tax rate reported by the Company in 2017, tax on interest expense for 2017 was calculated using an adjusted effective tax rate.

(2) See the section entitled Adjusted performance measures for an explanation of this non-GAAP measure.

(3) The adjusted effective tax rates from 2014 to 2018 used to calculate the adjusted tax on interest expense are 27.7%, 26.5%, 26.2%, 25.8% and 24.5%, 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 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:

<i>In millions</i>	<i>Year ended December 31,</i>	<b>2018</b>	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)
<b>Free cash flow</b>		<b>\$ 2,514</b>	<b>\$ 2,778</b>	<b>\$ 2,520</b>	<b>\$ 2,373</b>	<b>\$ 2,220</b>