

NON-GAAP MEASURES – UNAUDITED

In this supplementary 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). The Company also uses non-GAAP measures that do not have any standardized meaning prescribed by GAAP, including adjusted performance measures, free cash flow, constant currency 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

Adjusted net income, adjusted earnings per share, adjusted operating income, adjusted operating expenses and adjusted operating ratio are non-GAAP measures that are used to set performance goals and to measure CN's performance. Management believes that these adjusted performance measures provide additional insight to management and investors into the Company's operations and underlying business trends as well as facilitate period-to-period comparisons, as they exclude certain significant items that are not reflective of CN's underlying business operations and could distort the analysis of trends in business performance. These items may include:

- i. operating expense adjustments: workforce reduction program, depreciation expense on the deployment of replacement system, advisory fees related to shareholder matters, losses and recoveries from assets held for sale, business acquisition-related costs;
- ii. non-operating expense adjustments: business acquisition-related financing fees, merger termination income, gains and losses on disposal of property; and
- iii. the effect of tax law changes and rate enactments.

These non-GAAP 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, 2023, the Company's net income was \$1,108 million, or \$1.69 per diluted share, and \$3,495 million, or \$5.27 per diluted share, respectively. There were no adjustments in the third quarter and the first nine months of 2023.

For the three and nine months ended September 30, 2022, the Company's adjusted net income was \$1,455 million, or \$2.13 per diluted share, and \$3,714 million, or \$5.37 per diluted share, respectively. The adjusted figures for the nine months ended September 30, 2022 exclude advisory fees related to shareholder matters of \$22 million, or \$16 million after-tax (\$0.03 per diluted share) recorded in Casualty and other within the Consolidated Statements of Income.

Adjusted net income is defined as Net income in accordance with GAAP adjusted for certain significant items. Adjusted diluted earnings per share is defined as adjusted net income divided by the weighted-average diluted shares outstanding. The following table provides a reconciliation of Net income and Earnings per share in accordance with GAAP, as reported for the three and nine months ended September 30, 2023 and 2022, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net income	\$ 1,108	\$ 1,455	\$ 3,495	\$ 3,698
Adjustments:				
Advisory fees related to shareholder matters	—	—	—	22
Tax effect of adjustments ⁽¹⁾	—	—	—	(6)
Total adjustments	—	—	—	16
Adjusted net income	\$ 1,108	\$ 1,455	\$ 3,495	\$ 3,714
Diluted earnings per share	\$ 1.69	\$ 2.13	\$ 5.27	\$ 5.34
Impact of adjustments, per share	—	—	—	0.03
Adjusted diluted earnings per share	\$ 1.69	\$ 2.13	\$ 5.27	\$ 5.37

(1) The tax impact of adjustments is based on the nature of the item for tax purposes and related tax rates in the applicable jurisdiction.

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Adjusted operating income is defined as Operating income in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating expenses is defined as Operating expenses in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating ratio is defined as adjusted operating expenses as a percentage of revenues. The following table provides a reconciliation of Operating income, Operating expenses and operating ratio, as reported for the three and nine months ended September 30, 2023 and 2022, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentages</i>	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Operating income	\$ 1,517	\$ 1,932	\$ 4,779	\$ 4,928
Adjustment:				
Advisory fees related to shareholder matters	–	–	–	22
Total adjustment	–	–	–	22
Adjusted operating income	\$ 1,517	\$ 1,932	\$ 4,779	\$ 4,950
Operating expenses	\$ 2,470	\$ 2,581	\$ 7,578	\$ 7,637
Total adjustment	–	–	–	(22)
Adjusted operating expenses	\$ 2,470	\$ 2,581	\$ 7,578	\$ 7,615
Operating ratio	62.0 %	57.2 %	61.3 %	60.8 %
Impact of adjustment	– %	– %	– %	(0.2)%
Adjusted operating ratio	62.0 %	57.2 %	61.3 %	60.6 %

Free cash flow

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 (i) business acquisitions and (ii) merger transaction-related payments, cash receipts and cash income taxes, which are items that are not indicative of operating trends. 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 in accordance with GAAP, as reported for the three and nine months ended September 30, 2023 and 2022, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 1,512	\$ 2,112	\$ 4,552	\$ 4,395
Net cash used in investing activities	(931)	(756)	(2,278)	(1,573)
Net cash provided before financing activities	581	1,356	2,274	2,822
Adjustment:				
Cash income taxes for merger transaction-related payments and cash receipts ⁽¹⁾	–	–	–	102
Free cash flow	\$ 581	\$ 1,356	\$ 2,274	\$ 2,924

(1) Relates to income tax payments of \$102 million for KCS merger transaction-related payments and cash receipts. See Note 4 – Acquisition to the Company's 2022 Annual Consolidated Financial Statements for additional information.

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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 weighted average foreign exchange rates used to translate transactions denominated in US dollars of the comparable period of the prior year.

The average foreign exchange rates were \$1.34 and \$1.35 per US\$1.00 for the three and nine months ended September 30, 2023, respectively, and \$1.31 and \$1.28 per US\$1.00 for the three and nine months ended September 30, 2022, respectively. On a constant currency basis, the Company's net income for the three and nine months ended September 30, 2023 would have been lower by \$18 million (\$0.03 per diluted share) and \$94 million (\$0.14 per diluted share), respectively.

The following table provides a reconciliation of the impact of constant currency and related percentage change at constant currency on the financial results, as reported for the three and nine months ended September 30, 2023:

<i>In millions, except per share data</i>	Three months ended September 30				Nine months ended September 30			
	2023	Constant currency impact	2022	% Change at constant currency Fav (Unfav)	2023	Constant currency impact	2022	% Change at constant currency Fav (Unfav)
Revenues								
Petroleum and chemicals	\$ 758	\$ (14)	\$ 850	(12%)	\$ 2,334	\$ (70)	\$ 2,435	(7%)
Metals and minerals	515	(11)	539	(6%)	1,541	(58)	1,411	5%
Forest products	466	(10)	550	(17%)	1,457	(53)	1,489	(6%)
Coal	242	(2)	258	(7%)	768	(13)	702	8%
Grain and fertilizers	722	(9)	621	15%	2,271	(55)	1,829	21%
Intermodal	880	(7)	1,340	(35%)	2,875	(45)	3,722	(24%)
Automotive	237	(5)	208	12%	687	(24)	581	14%
Total freight revenues	3,820	(58)	4,366	(14%)	11,933	(318)	12,169	(5%)
Other revenues	167	(3)	147	12%	424	(12)	396	4%
Total revenues	3,987	(61)	4,513	(13%)	12,357	(330)	12,565	(4%)
Operating expenses								
Labor and fringe benefits	773	(6)	770	—%	2,332	(39)	2,204	(4%)
Purchased services and material	534	(5)	520	(2%)	1,698	(28)	1,615	(3%)
Fuel	486	(13)	649	27%	1,528	(68)	1,846	21%
Depreciation and amortization	457	(5)	435	(4%)	1,354	(25)	1,278	(4%)
Equipment rents	89	(2)	72	(21%)	262	(10)	254	1%
Casualty and other	131	(2)	135	4%	404	(13)	440	11%
Total operating expenses	2,470	(33)	2,581	6%	7,578	(183)	7,637	3%
Operating income	1,517	(28)	1,932	(23%)	4,779	(147)	4,928	(6%)
Interest expense	(185)	4	(141)	(28%)	(523)	22	(395)	(27%)
Other components of net periodic benefit income	121	—	125	(3%)	360	—	374	(4%)
Other income (loss)	(2)	—	(1)	(100%)	—	—	(25)	100%
Income before income taxes	1,451	(24)	1,915	(25%)	4,616	(125)	4,882	(8%)
Income tax expense	(343)	6	(460)	27%	(1,121)	31	(1,184)	8%
Net income	\$ 1,108	\$ (18)	\$ 1,455	(25%)	\$ 3,495	\$ (94)	\$ 3,698	(8%)
Diluted earnings per share	\$ 1.69	\$ (0.03)	\$ 2.13	(22%)	\$ 5.27	\$ (0.14)	\$ 5.34	(4%)

NON-GAAP MEASURES – UNAUDITED

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted 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 the last twelve months of adjusted EBITDA. Adjusted debt is defined as the sum of Long-term debt and Current portion of long-term debt as reported on the Company's Consolidated Balance Sheets as well as Operating lease liabilities, including current portion and pension plans in deficiency recognized on the Company's Consolidated Balance Sheets due to the debt-like nature of their contractual and financial obligations. Adjusted EBITDA is calculated as Net income excluding Interest expense, Income tax expense, Depreciation and amortization, operating lease cost, Other components of net periodic benefit income, Other income (loss), and other significant items that are not reflective of CN's underlying business operations and which could distort the analysis of trends in business performance. Adjusted debt and adjusted EBITDA are non-GAAP measures used to compute the Adjusted debt-to-adjusted EBITDA multiple. 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 in accordance with GAAP, reported as at and for the twelve months ended September 30, 2023 and 2022, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the twelve months ended September 30,</i>		2023	2022
Debt		\$	18,382	\$ 15,392
Adjustments:				
Operating lease liabilities, including current portion ⁽¹⁾			429	484
Pension plans in deficiency ⁽²⁾			351	444
Adjusted debt		\$	19,162	\$ 16,320
Net income		\$	4,915	\$ 4,899
Interest expense			676	520
Income tax expense			1,582	1,557
Depreciation and amortization			1,805	1,661
Operating lease cost ⁽³⁾			147	138
Other components of net periodic benefit income			(484)	(486)
Other loss			2	4
Adjustment:				
Advisory fees related to shareholder matters ⁽⁴⁾			—	35
Adjusted EBITDA		\$	8,643	\$ 8,328
Adjusted debt-to-adjusted EBITDA multiple (times)			2.22	1.96

(1) Represents the present value of operating lease payments.

(2) Represents the total funded deficit of all defined benefit pension plans with a projected benefit obligation in excess of plan assets.

(3) Represents the operating lease costs recorded in Purchased services and material and Equipment rents within the Consolidated Statements of Income.

(4) Relates to advisory fees related to shareholder matters recorded in Casualty and other within the Consolidated Statements of Income. See the section entitled *Adjusted performance measures* of the Company's 2022 Annual MD&A for additional information.