Non-GAAP Measures – unaudited

In this 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). CN's Annual General Meeting of Shareholders presentation also 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.

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.

The following tables provide a reconciliation of net income and earnings per share, as reported for the periods specified, to the adjusted performance measures presented herein:

In millions, except per share data *Year ended December 31,*	**2017**	2016	2015	2014	2013
Net income as reported	**$ 5,484**	$ 3,640	$ 3,538	$ 3,167	$ 2,612
Adjustments:					
Other income	**-**	(76)	-	(80)	(69)
Income tax expense (recovery)	**(1,706)**	17	42	8	39
Adjusted net income	**$ 3,778**	$ 3,581	$ 3,580	$ 3,095	$ 2,582
Basic earnings per share as reported	**$ 7.28**	$ 4.69	$ 4.42	$ 3.86	$ 3.10
Impact of adjustments, per share	**(2.26)**	(0.08)	0.05	(0.09)	(0.03)
Adjusted basic earnings per share	**$ 5.02**	$ 4.61	$ 4.47	$ 3.77	$ 3.07
Diluted earnings per share as reported	**$ 7.24**	$ 4.67	$ 4.39	$ 3.85	$ 3.09
Impact of adjustments, per share	**(2.25)**	(0.08)	0.05	(0.09)	(0.03)
Adjusted diluted earnings per share	**$ 4.99**	$ 4.59	$ 4.44	$ 3.76	$ 3.06

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 Reform 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.

Non-GAAP Measures – unaudited

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, of $80 million, or $72 million after-tax ($0.09 per diluted share) in the first quarter.

For the year ended December 31, 2013, the Company reported adjusted net income of $2,582 million, or $3.06 per diluted share. The adjusted figures for the year ended December 31, 2013 exclude a first quarter gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements, of $40 million, or $36 million after-tax ($0.04 per diluted share) and a second quarter gain on exchange of perpetual railroad operating easements including the track and roadway assets on specific rail lines, of $29 million, or $18 million after-tax ($0.02 per diluted share). The adjusted figures also exclude a second quarter income tax expense of $5 million ($0.01 per diluted share) and a third quarter income tax expense of $19 million ($0.02 per diluted share), both resulting from the enactment of higher provincial corporate income tax rates.

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. 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 $1.30 and $1.33 per US$1.00, for the years ended December 31, 2017 and 2016, respectively.

On a constant currency basis, the Company's net income for the year ended December 31, 2017 would have been higher by $42 million ($0.06 per diluted share).

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.

The following table provides a reconciliation of net cash provided by operating activities, as reported for the periods specified, to free cash flow:

In millions *Year ended December 31,*	**2017**	2016	2015	2014	2013
Net cash provided by operating activities	**$ 5,516**	$ 5,202	$ 5,140	$ 4,381	$ 3,548
Net cash used in investing activities	**(2,738)**	(2,682)	(2,767)	(2,161)	(1,925)
Free cash flow	**$ 2,778**	$ 2,520	$ 2,373	$ 2,220	$ 1,623

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.

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 year ended December 31,*	**2017**	2016
Debt	**$ 10,828**	$ 10,937
Adjustments:		
Present value of operating lease commitments (1)	**478**	533
Pension plans in deficiency	**455**	442
Adjusted debt (2)	**$ 11,761**	$ 11,912
Net income	**$ 5,484**	$ 3,640
Interest expense	**481**	480
Income tax expense (recovery)	**(395)**	1,287
Depreciation and amortization	**1,281**	1,225
EBITDA	**6,851**	6,632
Adjustments:		
Other income	**(12)**	(95)
Other components of net periodic benefit income	**(315)**	(280)
Operating lease expense	**191**	197
Adjusted EBITDA (2)	**$ 6,715**	$ 6,454
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**1.75**	1.85

(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.