Non-GAAP Measures – unaudited

In this supplementary schedule, the word "Company" or "CN" means 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 months and year ended December 31, 2017, the Company reported adjusted net income of $897 million, or $1.20 per diluted share, and $3,778 million, or $4.99 per diluted share, respectively. The adjusted figures for the year ended December 31, 2017 exclude 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 ($2.35 per diluted share for the quarter and $2.33 per diluted share for the year) resulting from the enactment of a lower federal corporate income tax rate due to the U.S. *Tax Cuts and Jobs Act* ("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 three months and year ended December 31, 2016, the Company reported adjusted net income of $952 million, or $1.23 per diluted share and $3,581 million, or $4.59 per diluted share, respectively. The adjusted figures for the year ended December 31, 2016 exclude 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.

Non-GAAP Measures – unaudited

The following table provides a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2017 and 2016, to the adjusted performance measures presented herein:

	Three months ended December 31		Year ended December 31	
In millions, except per share data	**2017**	2016	**2017**	2016
Net income as reported	**$ 2,611**	$ 1,018	**$ 5,484**	$ 3,640
Adjustments:				
Other income	**-**	(76)	**-**	(76)
Income tax expense (recovery)	**(1,714)**	10	**(1,706)**	17
Adjusted net income	**$ 897**	$ 952	**$ 3,778**	$ 3,581
Basic earnings per share as reported	**$ 3.50**	$ 1.33	**$ 7.28**	$ 4.69
Impact of adjustments, per share	**(2.29)**	(0.09)	**(2.26)**	(0.08)
Adjusted basic earnings per share	**$ 1.21**	$ 1.24	**$ 5.02**	$ 4.61
Diluted earnings per share as reported	**$ 3.48**	$ 1.32	**$ 7.24**	$ 4.67
Impact of adjustments, per share	**(2.28)**	(0.09)	**(2.25)**	(0.08)
Adjusted diluted earnings per share	**$ 1.20**	$ 1.23	**$ 4.99**	$ 4.59

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 $1.27 and $1.30 per US$1.00, respectively, for the three months and year ended December 31, 2017, and $1.33 per US$1.00 for both the three months and year ended December 31, 2016.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2017 would have been higher by $26 million ($0.03 per diluted share) and $42 million ($0.06 per diluted share), respectively.

Non-GAAP Measures – unaudited

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 for the three months and years ended December 31, 2017 and 2016, to free cash flow:

	Three months ended December 31		Year ended December 31	
In millions	**2017**	2016	**2017**	2016
Net cash provided by operating activities	**$ 1,349**	$ 1,378	**$ 5,516**	$ 5,202
Net cash used in investing activities [1]	**(892)**	(601)	**(2,738)**	(2,682)
Free cash flow	**$ 457**	$ 777	**$ 2,778**	$ 2,520

(1) As a result of the retrospective adoption of Accounting Standards Update 2016-18 in the first quarter of 2017, changes in restricted cash and cash equivalents are no longer classified as investing activities within the Consolidated Statements of Cash Flows and are no longer included as an adjustment in the Company's definition of free cash flow. There is no impact to free cash flow resulting from this reclassification.

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 year ended December 31,*	**2017**	2016
Debt		**$ 10,828**	$ 10,937
Adjustment: Present value of operating lease commitments [1]		**478**	533
Adjusted debt		**$ 11,306**	$ 11,470
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)
Deemed interest on operating leases		**22**	24
Adjusted EBITDA		**$ 6,861**	$ 6,561
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**1.65**	1.75

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