# 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 months ended March 31, 2018, the Company’s reported and adjusted net income was $741 million, or $1.00 per diluted share.

For the three months ended March 31, 2017, the Company’s adjusted net income was $879 million, or $1.15 per diluted share, which excludes 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.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2018 and 2017, to the adjusted performance measures presented herein:

| | Three months ended March 31 | |
|---|---|---|
| *In millions, except per share data* | **2018** | 2017 |
| Net income as reported | **$ 741** | $ 884 |
| *Adjustment:* Income tax recovery | **-** | (5) |
| *Adjusted net income* | **$ 741** | $ 879 |
| Basic earnings per share as reported | **$ 1.00** | $ 1.16 |
| *Impact of adjustment, per share* | **-** | (0.01) |
| *Adjusted basic earnings per share* | **$ 1.00** | $ 1.15 |
| Diluted earnings per share as reported | **$ 1.00** | $ 1.16 |
| *Impact of adjustment, per share* | **-** | (0.01) |
| *Adjusted diluted earnings per share* | **$ 1.00** | $ 1.15 |

## 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 $1.26 and $1.32 per US$1.00 for the three months ended March 31, 2018 and 2017, respectively.

On a constant currency basis, the Company’s net income for the three months ended March 31, 2018 would have been higher by $24 million ($0.03 per diluted share).

# 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 ended March 31, 2018 and 2017, to free cash flow:

| | Three months ended March 31 | |
|---|---|---|
| *In millions* | **2018** | 2017 |
| Net cash provided by operating activities | **$ 755** | $ 1,256 |
| Net cash used in investing activities | **(433)** | (408) |
| *Free cash flow* | **$ 322** | $ 848 |

## 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 March 31,* | **2018** | 2017 |
|---|---|---|
| Debt | **$ 11,912** | $ 10,924 |
| *Adjustments:* | | |
| Present value of operating lease commitments (1) | **473** | 516 |
| Pension plans in deficiency | **456** | 440 |
| *Adjusted debt* (2) | **$ 12,841** | $ 11,880 |
| Net income | **$ 5,341** | $ 3,732 |
| Interest expense | **481** | 479 |
| Income tax expense (recovery) | **(444)** | 1,279 |
| Depreciation and amortization | **1,281** | 1,241 |
| *EBITDA* | **6,659** | 6,731 |
| *Adjustments:* | | |
| Other income | **(16)** | (92) |
| Other components of net periodic benefit income | **(313)** | (292) |
| Operating lease expense | **193** | 191 |
| *Adjusted EBITDA* (2) | **$ 6,523** | $ 6,538 |
| Adjusted debt-to-adjusted EBITDA multiple (times) | **1.97** | 1.82 |

*(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.*