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, constant currency, free cash flow, adjusted debt-to-adjusted EBITDA multiple, return on invested capital (ROIC) and adjusted ROIC. 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 adjusted performance 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. 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, 2019, the Company reported adjusted net income of $896 million, or $1.25 per diluted share, and $4,189 million, or $5.80 per diluted share, respectively, which excludes employee termination benefits and severance costs related to a workforce reduction program of $31 million, or $23 million after-tax ($0.03 per diluted share). The adjusted figures for the year ended December 31, 2019 also exclude a deferred income tax recovery of $112 million ($0.15 per diluted share or $0.16 per basic share) in the second quarter, resulting from the enactment of a lower provincial corporate income tax rate; and a depreciation expense of $84 million, or $62 million after-tax ($0.09 per diluted share) in the first quarter, related to costs previously capitalized for a Positive Train Control back office system following the deployment of a replacement system.

For the three months and year ended December 31, 2018, the Company reported adjusted net income of $1,093 million, or $1.49 per diluted share, and $4,056 million, or $5.50 per diluted share, respectively, 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) and 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). The adjusted figures for the year ended December 31, 2018 also exclude gains on disposals of property, consisting of the following:

- 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 finance 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).

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, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended December 31		Year ended December 31	
In millions, except per share data	**2019**	2018	**2019**	2018
Net income	**$ 873**	$ 1,143	**$ 4,216**	$ 4,328
Adjustments:				
Operating expenses	**31**	27	**115**	27
Other income	**—**	(79)	**—**	(338)
Income tax expense (recovery) (1)	**(8)**	2	**(142)**	39
Adjusted net income	**$ 896**	$ 1,093	**$ 4,189**	$ 4,056
Basic earnings per share	**$ 1.22**	$ 1.57	**$ 5.85**	$ 5.89
Impact of adjustments, per share	**0.03**	(0.07)	**(0.04)**	(0.37)
Adjusted basic earnings per share	**$ 1.25**	$ 1.50	**$ 5.81**	$ 5.52
Diluted earnings per share	**$ 1.22**	$ 1.56	**$ 5.83**	$ 5.87
Impact of adjustments, per share	**0.03**	(0.07)	**(0.03)**	(0.37)
Adjusted diluted earnings per share	**$ 1.25**	$ 1.49	**$ 5.80**	$ 5.50

(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 three months and years ended December 31, 2019 and 2018, to the adjusted performance measures presented herein:

	Three months ended December 31		Year ended December 31	
In millions, except percentage	**2019**	2018	**2019**	2018
Operating income	**$ 1,218**	$ 1,452	**$ 5,593**	$ 5,493
Adjustment: Operating expenses	**31**	27	**115**	27
Adjusted operating income	**$ 1,249**	$ 1,479	**$ 5,708**	$ 5,520
Operating ratio (1)	**66.0%**	61.9%	**62.5%**	61.6%
Impact of adjustment	**(0.8)-pts**	(0.7)-pts	**(0.8)-pts**	(0.1)-pts
Adjusted operating ratio	**65.2%**	61.2%	**61.7%**	61.5%

(1) Operating ratio is defined as operating expenses as a percentage of revenues.

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 $1.32 and $1.33 per US$1.00 for the three months and year ended December 31, 2019, respectively, and $1.32 and $1.30 per US$1.00 for the three months and year ended December 31, 2018, respectively.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2019 would have remained flat and been lower by $65 million ($0.09 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 business 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, 2019 and 2018, to free cash flow:

	Three months ended December 31		Year ended December 31	
In millions	**2019**	2018	**2019**	2018
Net cash provided by operating activities	**$ 1,518**	$ 1,917	**$ 5,923**	$ 5,918
Net cash used in investing activities	**(1,117)**	(1,284)	**(4,190)**	(3,404)
Net cash provided before financing activities	**401**	633	**1,733**	2,514
Adjustment: Acquisitions, net of cash acquired (1)	**92**	—	**259**	—
Free cash flow	**$ 493**	$ 633	**$ 1,992**	$ 2,514

(1) Relates to the acquisitions of H&R Transport Limited ("H&R") and the TransX Group of Companies ("TransX"). See Note 3 - Business combinations to CN's 2019 unaudited Interim Consolidated Financial Statements for additional information.

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,*	**2019**	2018
Debt		**$ 13,796**	$ 12,569
Adjustments:			
Operating lease liabilities, including current portion (1)		**501**	579
Pension plans in deficiency		**521**	477
Adjusted debt		**$ 14,818**	$ 13,625
Net income		**$ 4,216**	$ 4,328
Interest expense		**538**	489
Income tax expense		**1,213**	1,354
Depreciation and amortization		**1,562**	1,329
EBITDA		**7,529**	7,500
Adjustments:			
Other income		**(53)**	(376)
Other components of net periodic benefit income		**(321)**	(302)
Operating lease cost (1)		**171**	218
Adjusted EBITDA		**$ 7,326**	$ 7,040
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**2.02**	1.94

(1) The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019. The Company now includes operating lease liabilities, as defined by Topic 842, in adjusted debt and excludes operating lease cost, as defined by Topic 842, in adjusted EBITDA. Comparative balances previously referred to as present value of operating lease commitments and operating lease expense have not been adjusted and are now referred to as operating lease liabilities and operating lease cost, respectively. See Note 2 - Recent accounting pronouncements to CN's 2019 unaudited Interim Consolidated Financial Statements for additional information.

Non-GAAP Measures – unaudited

Return on invested capital (ROIC) and adjusted ROIC

Management believes 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. ROIC and adjusted ROIC 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 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:

In millions, except percentage	*As at and for the year ended December 31,*	**2019**	2018
Net income		**$ 4,216**	$ 4,328
Interest expense		**538**	489
Tax on interest expense [1]		**(120)**	(116)
Return		**$ 4,634**	$ 4,701
Average total shareholders' equity		**$ 17,841**	$ 17,149
Average long-term debt		**11,626**	10,067
Average current portion of long-term debt		**1,557**	1,632
Less: Average cash, cash equivalents, restricted cash and restricted cash equivalents		**(674)**	(656)
Average invested capital		**$ 30,350**	$ 28,192
ROIC		**15.3%**	16.7%
Adjusted net income [2]		**$ 4,189**	$ 4,056
Interest expense		**538**	489
Adjusted tax on interest expense [3]		**(131)**	(120)
Adjusted return		**$ 4,596**	$ 4,425
Average invested capital		**$ 30,350**	$ 28,192
Adjusted ROIC		**15.1%**	15.7%

(1) *The effective tax rate for 2019 used to calculate the tax on interest expense was 22.3% (2018 - 23.8%).*

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

(3) *The adjusted effective tax rate for 2019 used to calculate the adjusted tax on interest expense was 24.4% (2018 - 24.5%).*