

Non-GAAP Measures – unaudited

In this supplementary schedule, the word “Company” or “CN” means, as the context requires, Canadian National Railway Company and 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 the performance of CN. 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, 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 three months and year ended December 31, 2016 exclude a gain on disposal of approximately one mile of elevated 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). The adjusted figures for the year ended December 31, 2016 also exclude a deferred income tax expense of \$7 million (\$0.01 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate that was recorded in the second quarter.

For the three months and year ended December 31, 2015, the Company reported adjusted net income of \$941 million, or \$1.18 per diluted share and \$3,580 million, or \$4.44 per diluted share, respectively. The adjusted figures for the year ended December 31, 2015 exclude a deferred income tax expense of \$42 million (\$0.05 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate that was recorded in the second quarter.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2016 and 2015, to the adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net income as reported	\$ 1,018	\$ 941	\$ 3,640	\$ 3,538
<i>Adjustments:</i>				
Other income	(76)	-	(76)	-
Income tax expense	10	-	17	42
Adjusted net income	\$ 952	\$ 941	\$ 3,581	\$ 3,580
Basic earnings per share as reported	\$ 1.33	\$ 1.19	\$ 4.69	\$ 4.42
<i>Impact of adjustments, per share</i>	(0.09)	-	(0.08)	0.05
Adjusted basic earnings per share	\$ 1.24	\$ 1.19	\$ 4.61	\$ 4.47
Diluted earnings per share as reported	\$ 1.32	\$ 1.18	\$ 4.67	\$ 4.39
<i>Impact of adjustments, per share</i>	(0.09)	-	(0.08)	0.05
Adjusted diluted earnings per share	\$ 1.23	\$ 1.18	\$ 4.59	\$ 4.44

Non-GAAP Measures – unaudited

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 of the prior year. The average foreign exchange rate was \$1.33 per US\$1.00 for both the three months and year ended December 31, 2016, and \$1.33 and \$1.28 per US\$1.00 respectively, for the three months and year ended December 31, 2015.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2016 would have been lower by \$3 million (unchanged per diluted share) and \$85 million (\$0.11 per diluted share), respectively.

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 changes in restricted cash and cash equivalents and 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 years ended December 31, 2016 and 2015, to free cash flow:

<i>In millions</i>	<u>Three months ended December 31</u>		<u>Year ended December 31</u>	
	2016	2015	2016	2015
Net cash provided by operating activities	\$ 1,378	\$ 1,293	\$ 5,202	\$ 5,140
Net cash used in investing activities	(597)	(661)	(2,655)	(2,827)
<i>Net cash provided before financing activities</i>	781	632	2,547	2,313
<i>Adjustment: Change in restricted cash and cash equivalents</i>	(4)	-	(27)	60
<i>Free cash flow</i>	\$ 777	\$ 632	\$ 2,520	\$ 2,373

Non-GAAP Measures – unaudited

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:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the year ended December 31,</i>		2016	2015
Debt	\$	10,937	\$	10,427
<i>Adjustment: Present value of operating lease commitments ⁽¹⁾</i>		533		607
<i>Adjusted debt</i>	\$	11,470	\$	11,034
Net income	\$	3,640	\$	3,538
Interest expense		480		439
Income tax expense		1,287		1,336
Depreciation and amortization		1,225		1,158
<i>EBITDA</i>		6,632		6,471
<i>Adjustments:</i>				
Other income		(95)		(47)
Deemed interest on operating leases		24		29
<i>Adjusted EBITDA</i>	\$	6,561	\$	6,453
<i>Adjusted debt-to-adjusted EBITDA multiple (times)</i>		1.75		1.71

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