



North America's Railroad

NEWS RELEASE

CN reports Q1-2015 net income of C\$704 million, or C\$0.86 per diluted share

Adjusted diluted earnings per share increased by 30 per cent ⁽¹⁾

MEMPHIS, Tenn., April 20, 2015 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2015.

First-quarter 2015 financial highlights

- Net income was C\$704 million, or C\$0.86 per diluted share, compared with net income of C\$623 million, or C\$0.75 per diluted share, for first-quarter 2014.
- First-quarter 2015 diluted earnings per share (EPS) increased 30 per cent to C\$0.86 from adjusted diluted EPS of C\$0.66 in Q1-2014, which excluded a gain on a rail line sale. ⁽¹⁾
- Q1-2015 net income of C\$704 million increased 28 per cent over adjusted net income of C\$551 million for the first quarter of 2014. ⁽¹⁾
- Q1-2015 operating income increased 30 per cent to C\$1,063 million.
- First-quarter 2015 revenues increased 15 per cent to C\$3,098 million, revenue ton-miles grew by seven per cent, and carloadings increased nine per cent.
- CN's operating ratio for Q1-2015 improved by 3.9 points to 65.7 per cent from 69.6 per cent the year before.
- Free cash flow for first-quarter 2015 was C\$521 million, up from C\$494 million for the year-earlier quarter. ⁽¹⁾

Claude Mongeau, president and chief executive officer, said: "CN turned in a solid first-quarter performance thanks to strong freight demand and continued productivity improvements, helped in part by easier winter conditions compared with last year's polar vortex.

"CN is pleased to affirm its outlook for double-digit EPS growth in 2015 versus last year's adjusted diluted EPS of C\$3.76, despite weaker than expected energy markets and a mixed economy. ⁽¹⁾

"As always we remain committed to growing our business faster than the overall economy and doing so at low incremental cost. We are equally committed to running a safe railway and are increasing our 2015 capital envelope by C\$100 million to C\$2.7 billion to sustain additional rail infrastructure safety investments." ⁽²⁾

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. The fluctuation of the Canadian dollar relative to the U.S. dollar affects the conversion of the Company's U.S.-dollar-denominated

revenues and expenses. On a constant currency basis, CN's net income for the first quarter of 2015 would have been lower by C\$56 million, or C\$0.07 per diluted share. ⁽¹⁾

First-quarter 2015 revenues, traffic volumes and expenses

Revenues for the first quarter of 2015 increased by 15 per cent to C\$3,098 million. Revenues increased for grain and fertilizers (24 per cent), forest products (23 per cent), automotive (23 per cent), metals and minerals (22 per cent), petroleum and chemicals (13 per cent), and intermodal (11 per cent). Coal revenues declined by 13 per cent.

The increase in revenues was mainly attributable to the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; higher volumes of Canadian grain and potash; strong overseas intermodal demand; higher shipments of lumber and panels to U.S. markets; higher volumes of frac sand; and freight rate increases. These factors were partly offset by decreased shipments of coal due to weaker global demand. Overall, revenues were favorably affected by improved operating conditions due to a more normal winter when compared with the same period of 2014, which enhanced the Company's ability to serve its customers.

Carloadings for the quarter rose by nine per cent to 1,353 thousand.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by seven per cent over the year-earlier quarter. Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by eight per cent over the year-earlier period, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

Operating expenses for the quarter increased by nine per cent to C\$2,035 million, mainly as a result of the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses, increased casualty and other expense, higher labor and fringe benefits expense, as well as increased purchased services and material expense, partly offset by lower fuel costs. Overall, expenses were favorably affected by improved operating conditions due to a more normal winter when compared with the same period of 2014.

Forward-Looking Statements

Certain information included in this news release constitutes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, these forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. To the extent that CN has provided guidance that are non-GAAP financial measures, the Company may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results. Key assumptions used in determining forward-looking information are set forth below.

2015 key assumptions

CN has made a number of economic and market assumptions in preparing its 2015 outlook. The Company is now assuming that North American industrial production for the year will increase by approximately three per cent, compared with its Jan. 27, 2015, assumption of three to four per cent, that U.S. housing starts will be in the range of 1.2 million units, and that U.S. motor vehicles sales will be approximately 16.7 million units. The 2014/2015 Canadian grain crop represented a significant reduction toward the historical

trend line while the U.S. grain crop was above trend. CN assumes that the 2015/2016 grain crops in both Canada and the United States will be in line with trend yields. CN also assumes its 2015 customer shipments of energy-related commodities, namely crude oil and frac sand, will grow by approximately 40,000 carloads versus 2014, compared with its previous assumption announced on Jan. 27, 2015, of 75,000-carload growth for the two commodities in 2015 versus 2014. With these assumptions, CN assumes total carload growth for all freight categories in 2015 will be approximately three per cent, compared with its Jan. 27, 2015, forecast of three to four per cent growth, along with continued pricing improvement above inflation. CN also now assumes that in 2015 the value of the Canadian dollar in U.S. currency will be approximately \$0.80, compared with the Jan. 27, 2015, assumption of \$0.80 to \$0.85, and that the average price of crude oil (West Texas Intermediate) will fluctuate around US\$50 per barrel. In 2015, CN plans to invest approximately C\$2.7 billion in its capital program, of which approximately C\$1.4 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. The 2015 capital program, which CN previously set at C\$2.6 billion, with C\$1.3 billion earmarked for network safety and integrity, also includes funds for projects supporting growth and productivity.

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labor negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of major risk factors.

CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable Canadian securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

- 1) See discussion and reconciliation of non-GAAP adjusted performance measures in the attached supplementary schedule, Non-GAAP Measures.
- 2) See Forward-Looking statements for a summary of the key assumptions and risks regarding CN's 2015 outlook.

CN is a true backbone of the economy, transporting more than C\$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries -- serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the company's website at www.cn.ca.

- 30 -

Contacts:

Media

Mark Hallman
Director
Communications and Public Affairs
(905) 669-3384

Investment Community

Janet Drysdale
Vice-President
Investor Relations
(514) 399-0052

Consolidated Statement of Income - unaudited

<i>In millions, except per share data</i>	Three months ended March 31	
	2015	2014
Revenues	\$ 3,098	\$ 2,693
Operating expenses		
Labor and fringe benefits	668	587
Purchased services and material	457	388
Fuel	361	468
Depreciation and amortization	296	256
Equipment rents	94	77
Casualty and other	159	97
<i>Total operating expenses</i>	2,035	1,873
<i>Operating income</i>	1,063	820
Interest expense	(104)	(92)
Other income (Note 3)	4	94
<i>Income before income taxes</i>	963	822
Income tax expense (Note 4)	(259)	(199)
Net income	\$ 704	\$ 623
Earnings per share (Note 5)		
Basic	\$ 0.87	\$ 0.75
Diluted	\$ 0.86	\$ 0.75
Weighted-average number of shares (Note 5)		
Basic	809.4	828.0
Diluted	814.3	831.3

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Comprehensive Income - unaudited

<i>In millions</i>	Three months ended March 31	
	2015	2014
Net income	\$ 704	\$ 623
Other comprehensive income (Note 9)		
Net gain on foreign currency translation	96	25
Net change in pension and other postretirement benefit plans	61	33
<i>Other comprehensive income before income taxes</i>	157	58
Income tax recovery	69	24
<i>Other comprehensive income</i>	226	82
Comprehensive income	\$ 930	\$ 705

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheet - unaudited

<i>In millions</i>	March 31 2015	December 31 2014	March 31 2014
Assets			
Current assets			
Cash and cash equivalents	\$ 178	\$ 52	\$ 198
Restricted cash and cash equivalents (Note 6)	473	463	471
Accounts receivable	924	928	899
Material and supplies	429	335	331
Deferred and receivable income taxes	108	163	162
Other	180	125	117
Total current assets	2,292	2,066	2,178
Properties	29,857	28,514	26,643
Pension asset	1,010	882	1,784
Intangible and other assets	337	330	288
Total assets	\$ 33,496	\$ 31,792	\$ 30,893
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other	\$ 1,738	\$ 1,657	\$ 1,547
Current portion of long-term debt	1,083	544	912
Total current liabilities	2,821	2,201	2,459
Deferred income taxes	7,267	6,902	6,748
Other liabilities and deferred credits	678	704	757
Pension and other postretirement benefits	666	650	546
Long-term debt	8,320	7,865	7,287
Shareholders' equity			
Common shares ⁽¹⁾	3,706	3,718	3,773
Additional paid-in capital ⁽¹⁾	452	439	221
Accumulated other comprehensive loss (Note 9)	(2,201)	(2,427)	(1,768)
Retained earnings	11,787	11,740	10,870
Total shareholders' equity	13,744	13,470	13,096
Total liabilities and shareholders' equity	\$ 33,496	\$ 31,792	\$ 30,893

See accompanying notes to unaudited consolidated financial statements.

(1) The Company reclassified certain 2014 balances from Common shares to Additional paid-in capital to conform with the 2015 presentation.

Consolidated Statement of Changes in Shareholders' Equity - unaudited

<i>In millions</i>	Issued and outstanding common shares	Common shares	Additional paid-in capital	Accumulated other comprehensive loss (Note 9)	Retained earnings	Total shareholders' equity
<i>Balance at December 31, 2014</i>	809.4	\$ 3,718	\$ 439	\$ (2,427)	11,740	\$ 13,470
Net income					704	704
Stock-based compensation	0.3	13	13		(1)	25
Share repurchase program (Note 6)	(5.4)	(25)			(404)	(429)
Other comprehensive income				226		226
Dividends					(252)	(252)
<i>Balance at March 31, 2015</i>	804.3	\$ 3,706	\$ 452	\$ (2,201)	11,787	\$ 13,744

<i>In millions</i>	Issued and outstanding common shares	Common shares	Additional paid-in capital	Accumulated other comprehensive loss (Note 9)	Retained earnings	Total shareholders' equity
<i>Balance at December 31, 2013</i>	830.6	\$ 3,795	\$ 220	\$ (1,850)	10,788	\$ 12,953
Net income					623	623
Stock-based compensation	0.3	8	1			9
Share repurchase program (Note 6)	(6.3)	(30)			(335)	(365)
Other comprehensive income				82		82
Dividends					(206)	(206)
<i>Balance at March 31, 2014</i>	824.6	\$ 3,773	\$ 221	\$ (1,768)	10,870	\$ 13,096

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Cash Flows - unaudited

<i>In millions</i>	Three months ended March 31	
	2015	2014
Operating activities		
Net income	\$ 704	\$ 623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	296	256
Deferred income taxes	70	95
Gain on disposal of property (Note 3)	-	(80)
Changes in operating assets and liabilities:		
Accounts receivable	71	(52)
Material and supplies	(84)	(54)
Accounts payable and other	21	(47)
Other current assets	(17)	(13)
Pensions and other, net	(69)	(83)
<i>Net cash provided by operating activities</i>	992	645
Investing activities		
Property additions	(468)	(248)
Disposal of property (Note 3)	-	97
Change in restricted cash and cash equivalents	(10)	(23)
Other, net	(3)	-
<i>Net cash used in investing activities</i>	(481)	(174)
Financing activities		
Issuance of debt	-	347
Repayment of debt	(47)	(456)
Net issuance of commercial paper (Note 6)	310	189
Common shares issued for stock options exercised, equity award settlements, and excess tax benefits	10	7
Repurchase of common shares (Note 6)	(410)	(365)
Dividends paid	(252)	(206)
<i>Net cash used in financing activities</i>	(389)	(484)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	4	(3)
<i>Net increase (decrease) in cash and cash equivalents</i>	126	(16)
Cash and cash equivalents, beginning of period	52	214
<i>Cash and cash equivalents, end of period</i>	\$ 178	\$ 198
Supplemental cash flow information		
Net cash receipts from customers and other	\$ 3,212	\$ 2,672
Net cash payments for:		
Employee services, suppliers and other expenses	(1,800)	(1,684)
Interest	(91)	(105)
Personal injury and other claims	(15)	(13)
Pensions (Note 7)	(86)	(93)
Income taxes	(228)	(132)
<i>Net cash provided by operating activities</i>	\$ 992	\$ 645

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's ("CN" or the "Company") financial position as at March 31, 2015, December 31, 2014 and March 31, 2014, and its results of operations, changes in shareholders' equity and cash flows for the three months ended March 31, 2015 and 2014.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2014 Annual Consolidated Financial Statements and Notes thereto. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's 2014 Annual Consolidated Financial Statements and Notes thereto.

2 - Recent accounting pronouncement

On April 7, 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest*. This ASU simplifies the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a deduction from the carrying amount of debt. This standard is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted and the new guidance should be applied on a retrospective basis. There will be no significant impact to the Company's Consolidated Financial Statements from the adoption of this standard.

3 - Other income

Recorded in Other income are gains and losses on the disposal of land and property, including the disposal of property described below. In addition, for the three months ended March 31, 2015 and 2014, Other income included foreign exchange gains of \$36 million and \$10 million, respectively, related to foreign exchange forward contracts (see Note 11 – Financial instruments) and foreign exchange losses of \$35 million and \$10 million, respectively, related to the re-measurement of foreign currency denominated monetary assets and liabilities, including US dollar-denominated debt of the parent company not designated as a hedge of its net investment in U.S. subsidiaries.

Disposal of property

2014

Deux-Montagnes

On February 28, 2014, the Company closed a transaction with Agence Métropolitaine de Transport to sell the Deux-Montagnes subdivision between Saint-Eustache and Montreal, Quebec, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), for cash proceeds of \$97 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Deux-Montagnes at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of \$80 million (\$72 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

4 - Income taxes

The Company recorded income tax expense of \$259 million for the three months ended March 31, 2015 compared to \$199 million for the same period in 2014. Included in the 2014 figure was an income tax recovery of \$18 million resulting from a change in estimate of the deferred income tax liability related to properties.

Notes to Unaudited Consolidated Financial Statements

5 - Earnings per share

<i>In millions, except per share data</i>	Three months ended March 31	
	2015	2014
Net income	\$ 704	\$ 623
Weighted-average basic shares outstanding	809.4	828.0
Effect of stock-based compensation	4.9	3.3
<i>Weighted-average diluted shares outstanding</i>	<i>814.3</i>	<i>831.3</i>
Basic earnings per share	\$ 0.87	\$ 0.75
Diluted earnings per share	\$ 0.86	\$ 0.75

6 - Financing activities

Revolving credit facility

The Company has an \$800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the facility amount, up to a maximum of \$1.3 billion, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders. On March 12, 2015, the Company exercised such option and extended the term of its agreement by one year to May 5, 2020. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offered Rate (LIBOR), plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at March 31, 2015 and December 31, 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the three months ended March 31, 2015.

Commercial paper

The Company has a commercial paper program, which is back-stopped by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the US dollar equivalent. As at March 31, 2015, the Company had total commercial paper borrowings of \$310 million (nil as at December 31, 2014) at a weighted-average interest rate of 0.89% presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2017, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million.

As at March 31, 2015, the Company recorded \$50 million (\$50 million as at December 31, 2014) of proceeds received under the accounts receivable securitization program in Current portion of long-term debt on the Consolidated Balance Sheet at a weighted-average interest rate of 1.04% (1.24% as at December 31, 2014) which is secured by, and limited to, \$56 million (\$56 million as at December 31, 2014) of accounts receivable.

Bilateral letter of credit facilities and Restricted cash and cash equivalents

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 12, 2015, the Company extended the expiry date of its agreements by one year to April 28, 2018. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at March 31, 2015, the Company had letters of credit drawn of \$497 million (\$487 million as at December 31, 2014) from a total committed amount of \$517 million (\$511 million as at December 31, 2014) by the various banks. As at March 31, 2015, cash and cash equivalents of \$473 million (\$463 million as at December 31, 2014) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Notes to Unaudited Consolidated Financial Statements

Share repurchase programs

The Company may repurchase shares pursuant to a normal course issuer bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 28.0 million common shares between October 24, 2014 and October 23, 2015. As at March 31, 2015, the Company had repurchased 11.0 million common shares for \$839 million under its current program.

The following table provides the information related to the share repurchase programs for the three months ended March 31, 2015 and 2014:

<i>In millions, except per share data</i>	Three months ended March 31	
	2015	2014
Number of common shares repurchased ⁽¹⁾	5.4	6.3
Weighted-average price per share ⁽²⁾	\$ 79.17	\$ 58.22
Amount of repurchase	\$ 429	\$ 365

(1) Includes common shares purchased in the first quarter of 2015 and 2014 pursuant to private agreements between the Company and arm's length third-party sellers.

(2) Includes brokerage fees.

7 - Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Additional information relating to the pension plans is provided in Note 12 - Pensions and other postretirement benefits to the Company's 2014 Annual Consolidated Financial Statements.

Components of net periodic benefit cost for pensions

<i>In millions</i>	Three months ended March 31	
	2015	2014
Current service cost	\$ 43	\$ 35
Interest cost	163	178
Expected return on plan assets	(251)	(245)
Amortization of prior service cost	1	1
Amortization of net actuarial loss	61	32
Net periodic benefit cost	\$ 17	\$ 1

Components of net periodic benefit cost for other postretirement benefits

<i>In millions</i>	Three months ended March 31	
	2015	2014
Current service cost	\$ 1	\$ 1
Interest cost	3	2
Amortization of prior service cost	-	1
Amortization of net actuarial gain	(1)	(1)
Net periodic benefit cost	\$ 3	\$ 3

Pension contributions made in the first three months of 2015 and 2014 of \$86 million and \$93 million, respectively, primarily represent contributions to the Company's main pension plan, the CN Pension Plan. These pension contributions are for the current service cost as determined under the Company's current actuarial valuations for funding purposes. The Company expects to make total cash contributions in 2015 of approximately \$125 million for all of the Company's pension plans.

Notes to Unaudited Consolidated Financial Statements

8 – Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the Company's major plans is provided in Note 14 – Stock plans to the Company's 2014 Annual Consolidated Financial Statements.

<i>In millions</i>	Three months ended March 31	
	2015	2014
Equity settled awards		
Share Units Plan ⁽¹⁾	\$ 8	\$ -
Stock option awards	3	2
<i>Stock-based compensation expense - Equity settled awards</i>	\$ 11	\$ 2
Cash settled awards		
Share Units Plan ⁽¹⁾	\$ 9	\$ 14
Voluntary Incentive Deferral Plan ⁽²⁾	1	1
<i>Stock-based compensation expense – Cash settled awards</i>	\$ 10	\$ 15
<i>Total stock-based compensation expense</i>	\$ 21	\$ 17
Tax benefit recognized in income	\$ 5	\$ 4

(1) Performance share unit (PSU) awards are granted under the Share Units Plan.

(2) Deferred share unit (DSU) awards are granted under the Voluntary Incentive Deferral Plan.

Equity settled awards

Share Units Plan

Under the Share Units Plan, the Company grants performance share unit (PSU) awards.

PSU-ROIC awards vest from 0% to 200%, subject to the attainment of a return on invested capital (ROIC) performance condition (previously from 0% to 150% for PSUs-ROIC outstanding as at December 31, 2014) over the plan period. Payout of PSU-ROIC awards is conditional upon the attainment of a minimum share price.

PSU-TSR awards, introduced in 2015, vest from 0% to 200%, subject to the attainment of a total shareholder return (TSR) market condition over the plan period of three years based on the Company's TSR relative to a Class I Railways peer group and components of the S&P/TSX 60 Index.

In the first quarter of 2015, the Company granted 0.4 million PSU-ROIC awards and 0.1 million PSU-TSR awards.

Equity settled PSUs will be settled in common shares of the Company, subject to the attainment of their respective vesting conditions, by way of disbursement from the Employee Benefit Plan Trusts. The number of shares remitted to the participant upon settlement is equal to the number of PSUs awarded multiplied by their respective vesting factor less amounts withheld to satisfy the participant's minimum statutory withholding tax requirement.

The settlement of PSUs, for senior and executive management employees, is conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation and non-disclosure of confidential information.

Notes to Unaudited Consolidated Financial Statements

Equity settled awards (excluding stock option awards)

	PSUs-ROIC ⁽¹⁾		PSUs-TSR ⁽²⁾		DSUs ⁽³⁾	
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value
	<i>In millions</i>		<i>In millions</i>		<i>In millions</i>	
Outstanding at December 31, 2014	0.9	\$ 71.05	-	N/A	1.7	\$ 76.29
Granted	0.4	\$ 50.87	0.1	\$ 114.86	-	\$ 81.18
Outstanding at March 31, 2015	1.3	\$ 64.35	0.1	\$ 114.86	1.7	\$ 76.45

(1) The grant date fair value of PSUs-ROIC granted in 2015 of \$21 million is calculated using a lattice-based valuation model. As at March 31, 2015, total unrecognized compensation cost related to non-vested PSUs-ROIC outstanding was \$36 million and is expected to be recognized over a weighted-average period of 2.1 years.

(2) The grant date fair value of PSUs-TSR granted in 2015 of \$16 million is calculated using a Monte Carlo simulation model. As at March 31, 2015, the total unrecognized compensation cost related to non-vested PSUs-TSR outstanding was \$13 million and is expected to be recognized over a weighted-average period of 2.8 years.

(3) The grant date fair value of DSUs granted in 2015 of \$2 million is calculated using an intrinsic value model and represents deferrals of annual incentive bonus payment and other eligible incentive payments. As at March 31, 2015, the total unrecognized compensation cost related to non-vested DSUs outstanding was \$1 million. The remaining recognition period has not been quantified as it relates solely to the 25% Company grant, representing a minimal number of units. As at March 31, 2015, the aggregate intrinsic value of DSUs outstanding amounted to \$149 million.

Stock option awards

	Options outstanding	
	Number of options	Weighted-average exercise price
	<i>In millions</i>	
Outstanding at December 31, 2014 ⁽¹⁾	7.5	\$ 37.37
Granted ⁽²⁾	0.8	\$ 84.55
Exercised	(0.3)	\$ 27.24
Outstanding at March 31, 2015 ^{(1) (3) (4)}	8.0	\$ 44.69
Exercisable at March 31, 2015 ^{(1) (4)}	5.7	\$ 35.51

(1) Stock options with a US dollar exercise price have been translated into Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) The grant date fair value of options awarded in 2015 of \$11 million (\$13.22 per unit) is calculated using the Black-Scholes option-pricing model.

(3) As at March 31, 2015, total unrecognized compensation cost related to non-vested options outstanding was \$15 million and is expected to be recognized over a weighted-average period of 3.2 years.

(4) As at March 31, 2015, substantially all stock options were in-the-money. The weighted-average years to expiration of outstanding options was 6.0 years and the weighted-average years to expiration of exercisable stock options was 4.8 years. As at March 31, 2015, the aggregate intrinsic value of in-the-money stock options outstanding amounted to \$322 million and aggregate intrinsic value of stock options exercisable amounted to \$281 million.

Cash settled awards

Number of units- <i>In millions</i>	PSUs-ROIC ⁽¹⁾	DSUs ⁽²⁾
Outstanding at December 31, 2014	1.6	0.5
Settled	(0.9)	-
Outstanding at March 31, 2015	0.7	0.5

(1) As at March 31, 2015, total unrecognized compensation cost related to non-vested PSUs-ROIC outstanding was \$24 million and is expected to be recognized over a weighted-average period of 1.4 years. As at March 31, 2015, the PSU liability was \$60 million (\$157 million as at December 31, 2014).

(2) As at March 31, 2015, total unrecognized compensation cost related to non-vested DSUs outstanding was minimal. The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units. As at March 31, 2015, the DSU liability was \$43 million (\$40 million as at December 31, 2014).

Notes to Unaudited Consolidated Financial Statements

9 - Accumulated other comprehensive loss

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2014	\$ (458)	\$ (2,510)	7	\$ (2,961)	\$ 534	\$ (2,427)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	742			742	-	742
Foreign exchange loss on translation of US dollar- denominated debt designated as a hedge of the net investment in U.S. subsidiaries ⁽¹⁾	(646)			(646)	85	(561)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		60		60 ⁽²⁾	(16) ⁽³⁾	44
Amortization of prior service cost		1		1 ⁽²⁾	-	1
<i>Other comprehensive income</i>	96	61	-	157	69	226
Balance at March 31, 2015	\$ (362)	\$ (2,449)	7	\$ (2,804)	\$ 603	\$ (2,201)

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2013	\$ (533)	\$ (1,515)	8	\$ (2,040)	\$ 190	\$ (1,850)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	276			276	-	276
Foreign exchange loss on translation of US dollar- denominated debt designated as a hedge of the net investment in U.S. subsidiaries ⁽¹⁾	(251)			(251)	32	(219)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		31		31 ⁽²⁾	(8) ⁽³⁾	23
Amortization of prior service cost		2		2 ⁽²⁾	-	2
<i>Other comprehensive income</i>	25	33	-	58	24	82
Balance at March 31, 2014	\$ (508)	\$ (1,482)	8	\$ (1,982)	\$ 214	\$ (1,768)

(1) The Company designates US dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(2) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 7 - Pensions and other postretirement benefits.

(3) Included in Income tax expense on the Consolidated Statement of Income.

Notes to Unaudited Consolidated Financial Statements

10 - Major commitments and contingencies

Commitments

As at March 31, 2015, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$1,569 million (\$1,054 million as at December 31, 2014). The Company also has estimated remaining commitments of approximately \$556 million (US\$438 million), in relation to the U.S. federal government legislative requirement to implement Positive Train Control (PTC).

In addition, the Company has estimated remaining commitments, through to December 31, 2016, of approximately \$62 million (US\$49 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company. These commitments are for railroad infrastructure improvements, grade separation projects as well as commitments under a series of agreements with individual communities and a comprehensive voluntary mitigation program established to address surrounding municipalities' concerns.

Contingencies

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

As at March 31, 2015, the Company had aggregate reserves for personal injury and other claims of \$306 million, of which \$50 million was recorded as a current liability (\$298 million as at December 31, 2014, of which \$48 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at March 31, 2015, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity in a particular quarter or fiscal year.

Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations.

The Company has identified approximately 250 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the *United States Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA)*, also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 10 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

Notes to Unaudited Consolidated Financial Statements

The ultimate cost of addressing these known contaminated sites cannot be definitively established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

As at March 31, 2015, the Company had aggregate accruals for environmental costs of \$150 million, of which \$82 million was recorded as a current liability (\$114 million as at December 31, 2014, of which \$45 million was recorded as a current liability). For the three months ended March 31, 2015, the Company recorded environmental accruals of approximately \$35 million related to first quarter derailments. The Company anticipates that the majority of the liability at March 31, 2015 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its accruals to be adequate.

Guarantees and indemnifications

A list of indemnifications found in various types of contracts with third parties is provided in Note 16 – Major commitments and contingencies to the Company's 2014 Annual Consolidated Financial Statements.

Guarantees

(a) Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2015 and 2022, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at March 31, 2015, the maximum exposure in respect of these guarantees was \$201 million (\$194 million as at December 31, 2014). There are no recourse provisions to recover any amounts from third parties.

(b) Other guarantees

As at March 31, 2015, the Company, including certain of its subsidiaries, had granted \$497 million (\$487 million as at December 31, 2014) of irrevocable standby letters of credit and \$112 million (\$106 million as at December 31, 2014) of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at March 31, 2015, the maximum potential liability under these guarantee instruments was \$609 million (\$593 million as at December 31, 2014), of which \$535 million (\$525 million as at December 31, 2014) related to workers' compensation and other employee benefit liabilities and \$74 million (\$68 million as at December 31, 2014) related to other liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The guarantee instruments expire at various dates between 2015 and 2018.

Notes to Unaudited Consolidated Financial Statements

11 - Financial instruments

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes. As at March 31, 2015, the Company had outstanding foreign exchange forward contracts with a notional value of US\$350 million (US\$350 million as at December 31, 2014). Changes in the fair value of forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur. For the three months ended March 31, 2015 and 2014, the Company recorded a pre-tax gain of \$36 million and \$10 million, respectively, related to foreign exchange forward contracts. As at March 31, 2015, the Company recorded an unrealized gain of \$45 million (\$9 million as at December 31, 2014) related to foreign exchange forward contracts in Other current assets in the Consolidated Balance Sheet.

Fair value of financial instruments

The carrying amounts of Cash and cash equivalents, Restricted cash and cash equivalents, Accounts receivable, Other current assets, and Accounts payable and other, approximate fair value because of the short maturity of these instruments. Cash and cash equivalents and Restricted cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are classified as Level 1. Accounts receivable, Other current assets, and Accounts payable and other, are classified as Level 2 as they may not be priced using quoted prices, but rather determined from market observable information.

Included in Intangible and other assets are equity investments for which the carrying amount approximates the fair value, with the exception of certain cost investments for which the fair value is estimated based on the Company's proportionate share of the underlying net assets. Investments are classified as Level 3 as their fair value is based on significant unobservable inputs. As at March 31, 2015, the Company's investments had a carrying amount of \$60 million (\$58 million as at December 31, 2014) and a fair value of \$194 million (\$183 million as at December 31, 2014).

The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. The Company's debt is classified as Level 2. As at March 31, 2015, the Company's debt had a carrying amount of \$9,403 million (\$8,409 million as at December 31, 2014) and a fair value of \$11,022 million (\$9,767 million as at December 31, 2014).

Additional information related to the fair value of financial instruments, including a description of the fair value hierarchy which defines the criteria used to classify financial instruments as Level 1, Level 2 or Level 3 is provided in Note 17 – Financial instruments to the Company's 2014 Annual Consolidated Financial Statements.

Selected Railroad Statistics - unaudited

	Three months ended March 31	
	2015	2014
Financial measures		
Key financial performance indicators		
Total revenues (\$ millions)	3,098	2,693
Rail freight revenues (\$ millions)	2,980	2,578
Operating income (\$ millions)	1,063	820
Adjusted diluted earnings per share (\$) ⁽¹⁾	0.86	0.66
Free cash flow (\$ millions) ⁽¹⁾	521	494
Property additions (\$ millions)	468	248
Share repurchases (\$ millions)	429	365
Dividends per share (\$)	0.3125	0.2500
Financial position		
Total assets (\$ millions)	33,496	30,893
Total liabilities (\$ millions)	19,752	17,797
Shareholders' equity (\$ millions)	13,744	13,096
Financial ratio		
Operating ratio (%)	65.7	69.6
Operational measures ⁽²⁾		
Statistical operating data		
Gross ton miles (GTM) (millions)	111,390	101,476
Revenue ton miles (RTM) (millions)	57,129	53,334
Carloads (thousands)	1,353	1,239
Route miles (includes Canada and the U.S.)	19,600	19,800
Employees (end of period)	25,486	23,992
Employees (average for the period)	25,235	23,756
Key operating measures		
Rail freight revenue per RTM (cents)	5.22	4.83
Rail freight revenue per carload (\$)	2,203	2,081
GTMs per average number of employees (thousands)	4,414	4,272
Operating expenses per GTM (cents)	1.83	1.85
Labor and fringe benefits expense per GTM (cents)	0.60	0.58
Diesel fuel consumed (US gallons in millions)	114.3	106.9
Average fuel price (\$ per US gallon)	2.84	3.95
GTMs per US gallon of fuel consumed	975	949
Terminal dwell (hours)	16.9	19.8
Train velocity (miles per hour)	24.9	24.0
Safety indicators ⁽³⁾		
Injury frequency rate (per 200,000 person hours)	1.64	2.09
Accident rate (per million train miles)	2.47	2.39

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

(2) Statistical operating data, key operating measures and safety indicators are based on estimated data available at such time and are subject to change as more complete information becomes available, as such, certain of the comparative data have been restated. Definitions of these indicators are provided on our website, www.cn.ca/glossary.

(3) Based on Federal Railroad Administration (FRA) reporting criteria.

Supplementary Information - unaudited

	Three months ended March 31			
	2015	2014	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) ⁽¹⁾
Revenues (millions of dollars)				
Petroleum and chemicals	643	568	13%	5%
Metals and minerals	377	308	22%	11%
Forest products	418	339	23%	13%
Coal	159	182	(13%)	(19%)
Grain and fertilizers	535	431	24%	17%
Intermodal	689	621	11%	7%
Automotive	159	129	23%	12%
Total rail freight revenues	2,980	2,578	16%	8%
Other revenues	118	115	3%	(4%)
Total revenues	3,098	2,693	15%	7%
Revenue ton miles (millions)				
Petroleum and chemicals	13,617	12,879	6%	6%
Metals and minerals	5,711	5,009	14%	14%
Forest products	7,242	6,555	10%	10%
Coal	4,210	5,294	(20%)	(20%)
Grain and fertilizers	12,944	11,313	14%	14%
Intermodal	12,593	11,661	8%	8%
Automotive	812	623	30%	30%
Total revenue ton miles	57,129	53,334	7%	7%
Rail freight revenue / RTM (cents)				
Petroleum and chemicals	4.72	4.41	7%	(1%)
Metals and minerals	6.60	6.15	7%	(2%)
Forest products	5.77	5.17	12%	3%
Coal	3.78	3.44	10%	2%
Grain and fertilizers	4.13	3.81	8%	3%
Intermodal	5.47	5.33	3%	(1%)
Automotive	19.58	20.71	(5%)	(14%)
Total rail freight revenue per RTM	5.22	4.83	8%	1%
Carloads (thousands)				
Petroleum and chemicals	164	161	2%	2%
Metals and minerals	237	207	14%	14%
Forest products	109	100	9%	9%
Coal	115	125	(8%)	(8%)
Grain and fertilizers	154	140	10%	10%
Intermodal	522	457	14%	14%
Automotive	52	49	6%	6%
Total carloads	1,353	1,239	9%	9%
Rail freight revenue / carload (dollars)				
Petroleum and chemicals	3,921	3,528	11%	3%
Metals and minerals	1,591	1,488	7%	(3%)
Forest products	3,835	3,390	13%	4%
Coal	1,383	1,456	(5%)	(12%)
Grain and fertilizers	3,474	3,079	13%	7%
Intermodal	1,320	1,359	(3%)	(7%)
Automotive	3,058	2,633	16%	6%
Total rail freight revenue per carload	2,203	2,081	6%	(1%)

Statistical operating data and related key operating measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

Non-GAAP – Measures - unaudited

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 the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2015 unaudited Interim Consolidated Financial Statements, and Notes thereto.

For the three months ended March 31, 2015, the Company reported adjusted net income of \$704 million, or \$0.86 per diluted share.

For the three months ended March 31, 2014, the Company reported adjusted net income of \$551 million, or \$0.66 per diluted share. The adjusted figures for the three months ended March 31, 2014 exclude a gain on disposal of the Deux-Montagnes subdivision, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), of \$80 million, or \$72 million after-tax (\$0.09 per diluted share).

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2015 and 2014, to the adjusted performance measures presented herein.

<i>In millions, except per share data</i>	Three months ended March 31	
	2015	2014
Net income as reported	\$ 704	\$ 623
<i>Adjustments:</i>		
Other income	-	(80)
Income tax expense	-	8
<i>Adjusted net income</i>	\$ 704	\$ 551
Basic earnings per share as reported	\$ 0.87	\$ 0.75
Impact of adjustments, per share	-	(0.09)
<i>Adjusted basic earnings per share</i>	\$ 0.87	\$ 0.66
Diluted earnings per share as reported	\$ 0.86	\$ 0.75
Impact of adjustments, per share	-	(0.09)
<i>Adjusted diluted earnings per share</i>	\$ 0.86	\$ 0.66

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 rates were \$1.24 and \$1.10 per US\$1.00, respectively, for the three months ended March 31, 2015 and 2014.

On a constant currency basis, the Company's net income for the three months ended March 31, 2015 would have been lower by \$56 million, or \$0.07 per diluted share.

Non-GAAP – Measures - unaudited

Free cash flow

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 Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends 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.

<i>In millions</i>	Three months ended March 31	
	2015	2014
Net cash provided by operating activities	\$ 992	\$ 645
Net cash used in investing activities	(481)	(174)
<i>Net cash provided before financing activities</i>	511	471
<i>Adjustment: Change in restricted cash and cash equivalents</i>	10	23
Free cash flow	\$ 521	\$ 494

Credit measures

Management believes that the adjusted debt-to-total capitalization ratio is a useful credit measure that aims to show the true leverage of the Company. Similarly, the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple is another useful credit measure because it reflects the Company's ability to service its debt. The Company excludes Other income in the calculation of EBITDA. However, since these measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies and, as such, should not be considered in isolation.

Adjusted debt-to-total capitalization ratio

	March 31,	2015	2014
Debt-to-total capitalization ratio ⁽¹⁾		40.6%	38.5%
<i>Add: Impact of present value of operating lease commitments ⁽²⁾</i>		1.6%	1.6%
Adjusted debt-to-total capitalization ratio		42.2%	40.1%

Adjusted debt-to-adjusted EBITDA

<i>In millions, unless otherwise indicated</i>	Twelve months ended March 31,	
	2015	2014
Debt	\$ 9,403	\$ 8,199
<i>Add: Present value of operating lease commitments ⁽²⁾</i>	644	575
Adjusted debt	10,047	8,774
Operating income	4,867	3,913
<i>Add: Depreciation and amortization</i>	1,090	1,001
EBITDA (excluding Other income)	5,957	4,914
<i>Add: Deemed interest on operating leases</i>	30	28
Adjusted EBITDA	\$ 5,987	\$ 4,942
Adjusted debt-to-adjusted EBITDA	1.68 times	1.78 times

(1) Debt-to-total capitalization is calculated as total Long-term debt plus Current portion of long-term debt, divided by the sum of total debt plus Total shareholders' equity.

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

The increase in the Company's adjusted debt-to-total capitalization ratio at March 31, 2015, as compared to the same period in 2014, was mainly due to an increased debt level caused by a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's higher operating income earned for the twelve months ended March 31, 2015, was partly offset by the impact of an increased debt level as at March 31, 2015, which resulted in a decrease in the Company's adjusted debt-to-adjusted EBITDA multiple, as compared to the same period in 2014.