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.

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

	Three months ended March 31	
In millions	**2015**	2014
Net cash provided by operating activities	**$ 992**	$ 645
Net cash used in investing activities	**(481)**	(174)
Net cash provided before financing activities	**511**	471
Adjustment: Change in restricted cash and cash equivalents	**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%
Add: Impact of present value of operating lease commitments (2)	**1.6%**	1.6%
Adjusted debt-to-total capitalization ratio	**42.2%**	40.1%

Adjusted debt-to-adjusted EBITDA

In millions, unless otherwise indicated — *Twelve months ended March 31,*	**2015**	2014
Debt	**$ 9,403**	$ 8,199
Add: Present value of operating lease commitments (2)	**644**	575
Adjusted debt	**10,047**	8,774
Operating income	**4,867**	3,913
Add: Depreciation and amortization	**1,090**	1,001
EBITDA (excluding Other income)	**5,957**	4,914
Add: Deemed interest on operating leases	**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.