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 and six months ended June 30, 2015, the Company reported adjusted net income of $928 million, or $1.15 per diluted share and $1,632 million, or $2.01 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 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.

For the three and six months ended June 30, 2014, the Company reported adjusted net income of $847 million, or $1.03 per diluted share and $1,398 million, or $1.68 per diluted share, respectively. The adjusted figures for the six months ended June 30, 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 and six months ended June 30, 2015 and 2014, to the adjusted performance measures presented herein.

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2015**	2014	**2015**	2014
Net income as reported	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Adjustments:				
Other income	**-**	-	**-**	(80)
Income tax expense	**42**	-	**42**	8
Adjusted net income	**$ 928**	$ 847	**$ 1,632**	$ 1,398
Basic earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted basic earnings per share	**$ 1.15**	$ 1.03	**$ 2.02**	$ 1.69
Diluted earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted diluted earnings per share	**$ 1.15**	$ 1.03	**$ 2.01**	$ 1.68

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 $1.23 per US$1.00, for both the three and six months ended June 30, 2015, and $1.09 and $1.10 per US$1.00, respectively, for the three and six months ended June 30, 2014.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2015 would have been lower by $64 million, or $0.08 per diluted share and $120 million, or $0.15 per diluted share, respectively.

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 June 30		Six months ended June 30	
In millions	**2015**	2014	**2015**	2014
Net cash provided by operating activities	**$ 1,203**	$ 1,273	**$ 2,195**	$ 1,918
Net cash used in investing activities	**(662)**	(494)	**(1,143)**	(668)
Net cash provided before financing activities	**541**	779	**1,052**	1,250
Adjustment: Change in restricted cash and cash equivalents	**(11)**	(3)	**(1)**	20
Free cash flow	**$ 530**	$ 776	**$ 1,051**	$ 1,270

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

June 30,	**2015**	2014
Debt-to-total capitalization ratio (1)	**40.1%**	36.5%
Add: Impact of present value of operating lease commitments (2)	**1.6%**	1.6%
Adjusted debt-to-total capitalization ratio	**41.7%**	38.1%

Adjusted debt-to-adjusted EBITDA multiple

In millions, unless otherwise indicated — *Twelve months ended June 30,*	**2015**	2014
Debt	**$ 9,344**	$ 7,661
Add: Present value of operating lease commitments (2)	**647**	563
Adjusted debt	**9,991**	8,224
Operating income	**4,971**	4,129
Add: Depreciation and amortization	**1,118**	1,008
EBITDA (excluding Other income)	**6,089**	5,137
Add: Deemed interest on operating leases	**30**	28
Adjusted EBITDA	**$ 6,119**	$ 5,165
Adjusted debt-to-adjusted EBITDA multiple	**1.63 times**	1.59 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 June 30, 2015, as compared to the same period in 2014, was mainly due to an increased debt level, primarily caused by a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's adjusted debt-to-adjusted EBITDA multiple also increased, driven by a higher debt level as at June 30, 2015, which was partly offset by a higher operating income earned for the twelve months ended June 30, 2015, as compared to the twelve months ended June 30, 2014.