Non-GAAP Measures

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 2014 Annual Consolidated Financial Statements, Notes thereto and Management's Discussion and Analysis (MD&A).

For the three months and year ended December 31, 2014, the Company reported adjusted net income of $844 million, or $1.03 per diluted share and $3,095 million, or $3.76 per diluted share, respectively. The adjusted figures for the year ended December 31, 2014 exclude a gain on disposal of the Deux-Montagnes subdivision, including the Mont-Royal tunnel, together with the rail fixtures, of $80 million, or $72 million after-tax ($0.09 per diluted share).

For the three months and year ended December 31, 2013, the Company reported adjusted net income of $635 million, or $0.76 per diluted share and $2,582 million, or $3.06 per diluted share, respectively. The adjusted figures for the year ended December 31, 2013 exclude a gain on exchange of perpetual railroad operating easements including the track and roadway assets on specific rail lines, of $29 million, or $18 million after-tax ($0.02 per diluted share) and a gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements, of $40 million, or $36 million after-tax ($0.04 per diluted share). The adjusted figures also exclude a $24 million ($0.03 per diluted share) income tax expense resulting from the enactment of higher provincial corporate income tax rates.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months and years ended December 31, 2014 and 2013, to the adjusted performance measures presented herein.

	Three months ended December 31		Year ended December 31	
In millions, except per share data	**2014**	2013	**2014**	2013
Net income as reported	**$ 844**	$ 635	**$ 3,167**	$ 2,612
Adjustments:				
Other income	**-**	-	**(80)**	(69)
Income tax expense	**-**	-	**8**	39
Adjusted net income	**$ 844**	$ 635	**$ 3,095**	$ 2,582
Basic earnings per share as reported	**$ 1.04**	$ 0.76	**$ 3.86**	$ 3.10
Less: Other income, including tax impact, per share	**-**	-	**(0.09)**	(0.03)
Adjusted basic earnings per share	**$ 1.04**	$ 0.76	**$ 3.77**	$ 3.07
Diluted earnings per share as reported	**$ 1.03**	$ 0.76	**$ 3.85**	$ 3.09
Less: Other income, including tax impact, per share	**-**	-	**(0.09)**	(0.03)
Adjusted diluted earnings per share	**$ 1.03**	$ 0.76	**$ 3.76**	$ 3.06

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 $1.14 and $1.10 per US$1.00, respectively, for the three months and year ended December 31, 2014, and $1.05 and $1.03 per US$1.00, respectively, for the corresponding periods in 2013.

On a constant currency basis, the Company's net income for the three months and year ended December 31, 2014 would have been lower by $45 million, or $0.06 per diluted share and $121 million, or $0.15 per diluted share, respectively.

Non-GAAP Measures

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 December 31		Year ended December 31	
In millions	**2014**	2013	**2014**	2013
Net cash provided by operating activities	**$ 1,135**	$ 1,098	**$ 4,381**	$ 3,548
Net cash used in investing activities	**(956)**	(701)	**(2,176)**	(1,852)
Net cash provided before financing activities	**179**	397	**2,205**	1,696
Adjustment: Change in restricted cash and cash equivalents	**(4)**	(81)	**15**	(73)
Free cash flow	**$ 175**	$ 316	**$ 2,220**	$ 1,623

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

December 31,	**2014**	2013
Debt-to-total capitalization ratio (1)	**38.4%**	37.7%
Add: Impact of present value of operating lease commitments (2)	**1.7%**	1.7%
Adjusted debt-to-total capitalization ratio	**40.1%**	39.4%

Adjusted debt-to-adjusted EBITDA

$ in millions, unless otherwise indicated — Twelve months ended December 31,	**2014**	2013
Debt	**$ 8,409**	$ 7,840
Add: Present value of operating lease commitments (2)	**607**	570
Adjusted debt	**9,016**	8,410
Operating income	**4,624**	3,873
Add: Depreciation and amortization	**1,050**	980
EBITDA (excluding Other income)	**5,674**	4,853
Add: Deemed interest on operating leases	**28**	28
Adjusted EBITDA	**$ 5,702**	$ 4,881
Adjusted debt-to-adjusted EBITDA	**1.58 times**	1.72 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 December 31, 2014, as compared to 2013, was mainly due to an increased debt level and a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's higher operating income earned during 2014, partly offset by an increased debt level as at December 31, 2014, resulted in a decrease in the Company's adjusted debt-to-adjusted EBITDA multiple, as compared to 2013.