

Non-GAAP Measures – unaudited

The Company makes reference to non-GAAP measures in this Annual Report that do not have any standardized meaning prescribed by U.S. GAAP and are, therefore, not necessarily comparable to similar measures presented by other companies and, as such, should not be considered in isolation. Management believes that non-GAAP measures such as adjusted net income and the resulting adjusted performance measures for such items as operating income, operating ratio and per share data are useful measures of performance that can facilitate period-to-period comparisons as they exclude items that do not arise as part of the normal day-to-day operations or that could potentially distort the analysis of trends in business performance. The exclusion of the specified items in the adjusted measures below do not, however, imply that such items are necessarily non-recurring. The Company also believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. 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 defines free cash flow as cash provided from operating activities, excluding changes in the accounts receivable securitization program and changes in cash and cash equivalents resulting from foreign exchange fluctuations, less cash used by investing activities and the payment of dividends. A reconciliation of the various non-GAAP measures presented in this Annual Report to their comparable U.S. GAAP measures is provided herein:

Reconciliation of adjusted performance measures – 2008, 2007 and 2006

In millions, except per share data, or unless otherwise indicated

Year ended December 31,	2008			2007			2006		
	Reported	Adjustments ⁽¹⁾	Adjusted	Reported	Adjustments ⁽²⁾	Adjusted	Reported	Adjustments ⁽³⁾	Adjusted
Revenues	\$8,482	\$ –	\$8,482	\$7,897	\$ –	\$7,897	\$7,929	\$ –	\$7,929
Operating expenses	5,588	–	5,588	5,021	–	5,021	4,899	–	4,899
Operating income	2,894	–	2,894	2,876	–	2,876	3,030	–	3,030
Interest expense	(375)	–	(375)	(336)	–	(336)	(312)	–	(312)
Other income	26	–	26	166	(153)	13	11	–	11
Income before income taxes	2,545	–	2,545	2,706	(153)	2,553	2,729	–	2,729
Income tax expense	(650)	(117)	(767)	(548)	(280)	(828)	(642)	(277)	(919)
Net income	\$1,895	\$ (117)	\$1,778	\$2,158	\$ (433)	\$1,725	\$2,087	\$ (277)	\$1,810
Operating ratio	65.9%		65.9%	63.6%		63.6%	61.8%		61.8%
Diluted earnings per share	\$ 3.95	\$(0.24)	\$ 3.71	\$ 4.25	\$(0.85)	\$ 3.40	\$ 3.91	\$(0.51)	\$ 3.40

(1) Adjusted to exclude a deferred income tax recovery of \$117 million (\$0.24 per diluted share), of which \$83 million was due to the resolution of various income tax matters and adjustments related to tax filings of prior years, \$23 million resulted from the enactment of corporate income tax rate changes in Canada and \$11 million was due to net capital losses arising from the reorganization of a subsidiary.

(2) Adjusted to exclude a deferred income tax recovery of \$328 million (\$0.64 per diluted share) that resulted mainly from the enactment of corporate income tax rate changes in Canada, as well as the gains on sale of the Central Station Complex of \$92 million, or \$64 million after-tax (\$0.13 per diluted share) and the Company's investment in English Welsh and Scottish Railway of \$61 million, or \$41 million after-tax (\$0.08 per diluted share).

(3) Adjusted to exclude a deferred income tax recovery of \$277 million (\$0.51 per diluted share) that resulted primarily from the enactment of lower corporate income tax rates in Canada and the resolution of matters pertaining to prior years' income taxes.

Free cash flow – 2008 and 2007

<i>In millions</i>	Year ended December 31,	
	2008	2007
Cash provided from operating activities	\$ 2,031	\$2,417
Cash used by investing activities	(1,400)	(895)
Cash provided before financing activities	631	1,522
<i>Adjustments:</i>		
Change in accounts receivable securitization	568	(228)
Dividends paid	(436)	(418)
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	31	(48)
Free cash flow	\$ 794	\$ 828