

CANADIAN PACIFIC RAILWAY LTD/CN  
Form 6-K  
January 29, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16**  
**under the Securities Exchange Act of 1934**  
**For the month of January 2014**

**CANADIAN PACIFIC RAILWAY LIMITED**  
**(Commission File No. 1-01342)**

**CANADIAN PACIFIC RAILWAY COMPANY**  
**(Commission File No. 1-15272)**  
**(translation of each Registrant's name into English)**

**7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9**

**(address of principal executive offices)**

Indicate by check mark whether the registrants file or will file annual reports under cover Form 20-F or Form 40-F.  
Form 20-F  Form 40-F

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

This Report furnished on Form 6-K shall be incorporated by reference into the Registration Statements of Canadian Pacific Railway Limited on Form S-8 (File Nos. 333-127943, 333-13962, 333-140955, 333-183891, 333-183892, 333-183893, 333-188826 and 333-188827).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN PACIFIC RAILWAY LIMITED

(Registrant)

Date: January 29, 2014

Signed: /s/ Celeste Evancio  
By: Name: Celeste Evancio  
Title: Assistant Corporate Secretary

CANADIAN PACIFIC RAILWAY COMPANY

(Registrant)

Date: January 29, 2014

Signed: /s/ Celeste Evancio  
By: Name: Celeste Evancio  
Title: Assistant Corporate Secretary

For Release Immediate January 29, 2014

**Canadian Pacific announces record fourth-quarter and 2013 full-year financial results**

Calgary, AB Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced record Q4 and 2013 full-year results that clearly demonstrate the significant progress made to date in its corporate and operational turnaround.

**FOURTH-QUARTER 2013 HIGHLIGHTS**

Total revenues were \$1.6 billion, an increase of 7 per cent and a quarterly record

Reported operating expenses were \$1.5 billion, an increase of 4 per cent

Adjusted operating expenses were \$1.1 billion, a decrease of 6 per cent

Reported operating income was \$114 million, an increase of 90 per cent

Adjusted operating income was \$547 million, an increase of 45 per cent

Adjusted operating ratio was 65.9 per cent, a 890 basis-point improvement and an all-time record

Free cash totaled \$212 million, an increase of 194 per cent

Reported net income in the fourth-quarter was \$82 million, or \$0.47 per diluted share, versus \$15 million, or \$0.08 per share, in the fourth-quarter 2012.

Adjusted net income in the fourth-quarter was \$338 million, or \$1.91 per diluted share, representing a 49 per cent improvement versus fourth-quarter 2012.

Adjusted operating expenses, Adjusted operating income, Adjusted operating ratio, Adjusted net income and Free cash are Non-GAAP measures which exclude significant items (\*see Non-GAAP Measures below).

Once again, Canadian Pacific and its outstanding team of railroaders delivered solid results this quarter, closing a historic year with record-setting operational and financial performance, said E. Hunter Harrison, Chief Executive Officer.

**FULL-YEAR 2013 HIGHLIGHTS**

Total revenues were \$6.1 billion, an increase of 8 per cent and a Company record

Reported operating expenses were \$4.7 billion, a decrease of 1 per cent

Adjusted operating expenses were \$4.3 billion, a decrease of 2 per cent

Reported operating income was \$1.4 billion, an increase of 50 per cent

Adjusted operating income was \$1.8 billion, an increase of 41 per cent

Adjusted operating ratio was 69.9 per cent, a 710 basis-point improvement and an all-time record

Free cash totaled \$530 million for the year, an increase of 470 per cent

Reported net income for 2013 was \$875 million, or \$4.96 per diluted share, versus \$484 million, or \$2.79 per share, in 2012.

Adjusted net income for the year was \$1.1 billion, or \$6.42 per diluted share, representing a 48 per cent improvement versus year-end 2012.

The transformational pace of change at CP has definitely exceeded expectations, said Harrison. We entered 2013 with an aggressive agenda of change and financial targets that would put us squarely in the path of achieving our goal of once again becoming an industry leader. I am proud to report that we exceeded those targets and have reestablished a sense of pride and accomplishment to this historic organization, added Harrison.

This journey is far from complete. Riding this positive momentum, I fully anticipate that 2014 will be another year of solid returns for our shareholders, said Harrison.

#### **2014 FULL-YEAR GUIDANCE**

Revenue growth of 6 to 7 per cent

Operating ratio of 65 per cent or lower

Diluted earnings per share ( EPS ) 30 per cent or greater versus 2013 diluted EPS, excluding significant items (\*see Non-GAAP Measures below) of \$6.42

#### **KEY ASSUMPTIONS**

Average fuel cost per gallon of US\$3.50 per U.S. Gallon

Tax rate of 28 per cent

Canadian to U.S. exchange rate of 1.05

Defined benefit pension income of approximately \$50 million in 2014 and 2015

Capital expenditures of \$1.2 to \$1.3 billion

## **FOURTH-QUARTER SIGNIFICANT ITEMS**

Items that impacted reported fourth-quarter 2013 and 2012 earnings include:

2013:

\$435 million (\$257 million after-tax) asset impairment charge and accruals for future costs associated with the sale of the DM&E West which unfavourably impacted diluted EPS by \$1.45

\$7 million experience gains from our 2012 labour restructuring initiative (\$5 million after tax), which favourably impacted diluted EPS by 3 cents

\$5 million management transition costs (\$4 million after tax), which unfavourably impacted diluted EPS by 2 cents

2012:

\$53 million labour restructuring charge (\$39 million after tax), which unfavourably impacted diluted EPS by 22 cents

\$185 million impairment of Powder River Basin and other investment (\$111 million after tax), which unfavourably impacted diluted EPS by 64 cents

\$80 million asset impairment of certain locomotives (\$59 million after tax), which unfavourably impacted diluted EPS by 34 cents

## **FULL-YEAR SIGNIFICANT ITEMS**

Items that impacted full year 2013 and 2012 earnings include:

2013:

In the first quarter, US \$9 million (US \$6 million after tax) recovery in the complete satisfaction of certain management transition amounts which had been subject to legal proceedings which favourably impacted diluted EPS by 3 cents

In the third quarter, income tax expense of \$7 million as a result of the change in the province of British Columbia's corporate income tax rate which unfavourably impacted diluted EPS by 4 cents

\$435 million (\$257 million after-tax) asset impairment charge and accruals for future costs associated with the sale of the DM&E West which unfavourably impacted diluted EPS by \$1.46 for the full year

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\$7 million experience gains from our 2012 labour restructuring initiative (\$5 million after tax), which favourably impacted diluted EPS by 3 cents

\$5 million management transition costs (\$4 million after tax), which unfavourably impacted diluted EPS by 2 cents

2012:

In addition to the fourth quarter significant items of 2012 discussed earlier:

in the second quarter a charge of \$42 million (\$29 million after tax) was recorded with respect to compensation and other management transition costs which unfavourably impacted diluted EPS by 17 cents

during the first and second quarters of 2012, the Company incurred advisory fees of \$27 million (\$20 million after tax) related to shareholder matters which unfavourably impacted diluted EPS by 12 cents

in the second quarter of 2012, an income tax expense of \$11 million as a result of the change in the province of Ontario's corporate income tax rate which unfavourably impacted diluted EPS by 6 cents



## **Non-GAAP Measures**

We present non-GAAP measures and cash flow information to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with the results of our operations in prior periods. These non-GAAP measures exclude significant items that are not among our normal ongoing revenues and operating expenses. They have no standardized meaning and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Adjusted net income provides management with a measure of income that allows a multi-period assessment of long-term profitability and also allows management and other external users of our consolidated financial statements to compare profitability on a long-term basis with that of our peers. Diluted earnings per share, excluding significant items, also referred to as Adjusted EPS, provides the same information on a per share basis. Operating ratio excluding significant items, also referred to as Adjusted operating ratio calculated as Operating expenses excluding significant items divided by total revenues, provides the percentage of total revenues used to operate the railway on an ongoing basis. Operating expenses excluding significant items is also referred to as Adjusted operating expenses.

Free cash is used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provides a comparable measure for period to period changes.

For further information regarding non-GAAP measures, including reconciliations to the nearest GAAP measures, see our 2012 annual Management's Discussion and Analysis or the attached supplementary schedule, Non-GAAP Measures.

## **Note on Forward-Looking Information**

This news release contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to our operations, priorities and plans, anticipated financial performance, business prospects, planned capital expenditures, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as financial expectations, key assumptions, anticipate, believe, expect, will, outlook, should or similar words suggesting future outcomes. To the extent that CP has provided guidance that is a non-GAAP financial measure, the Company may not be able to provide a reconciliation to a GAAP measure, due to unknown variables and uncertainty related to future results.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance. By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of



changes in market conditions and discount rates on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes. The foregoing list of factors is not exhaustive.

These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to Management's Discussion and Analysis in CP's annual and interim reports, Annual Information Form and Form 40-F. Readers are cautioned not to place undue reliance on forward-looking information. Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **About Canadian Pacific**

Canadian Pacific (TSX:CP)(NYSE:CP) is a transcontinental railway in Canada and the United States with direct links to eight major ports, including Vancouver and Montreal, providing North American customers a competitive rail service with access to key markets in every corner of the globe. CP is a low-cost provider that is growing with its customers, offering a suite of freight transportation services, logistics solutions and supply chain expertise. Visit [cpr.ca](http://cpr.ca) to see the rail advantages of Canadian Pacific.

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**CANADIAN PACIFIC RAILWAY LIMITED****CONSOLIDATED STATEMENTS OF INCOME**

(in millions of Canadian dollars, except per share data)

(unaudited)

|   | For the three months      |                           | For the year              |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | ended December 31<br>2013 | ended December 31<br>2012 | ended December 31<br>2013 | ended December 31<br>2012 |
| <b>Revenues</b>                                     |                           |                           |                           |                           |
| Freight   | \$ 1,570                  | \$ 1,464                  | \$ 5,982                  | \$ 5,550                  |
| Other   | 37                        | 38                        | 151                       | 145                       |
| <b>Total revenues</b>                               | <b>1,607</b>              | <b>1,502</b>              | <b>6,133</b>              | <b>5,695</b>              |
| <b>Operating expenses</b>                           |                           |                           |                           |                           |
| Compensation and benefits                           | 343                       | 378                       | 1,418                     | 1,506                     |
| Fuel  | 262                       | 256                       | 1,004                     | 999                       |
| Materials   | 65                        | 60                        | 249                       | 238                       |
| Equipment rents                                     | 39                        | 48                        | 173                       | 206                       |
| Depreciation and amortization                       | 144                       | 140                       | 565                       | 539                       |
| Purchased services and other                        | 212                       | 242                       | 876                       | 940                       |
| Asset impairments ( <i>Note 2</i> )                 | 435                       | 265                       | 435                       | 265                       |
| Labour restructuring                                | (7)                       | 53                        | (7)                       | 53                        |
| <b>Total operating expenses</b>                     | <b>1,493</b>              | <b>1,442</b>              | <b>4,713</b>              | <b>4,746</b>              |
| <b>Operating income</b>                             | <b>114</b>                | <b>60</b>                 | <b>1,420</b>              | <b>949</b>                |
| Less:   |                           |                           |                           |                           |
| Other income and charges                            | 6                         | 3                         | 17                        | 37                        |
| Net interest expense                                | 70                        | 69                        | 278                       | 276                       |
| <b>Income (loss) before income tax expense</b>      | <b>38</b>                 | <b>(12)</b>               | <b>1,125</b>              | <b>636</b>                |
| Income tax (recovery) expense                       | (44)                      | (27)                      | 250                       | 152                       |
| <b>Net income</b>                                   | <b>\$ 82</b>              | <b>\$ 15</b>              | <b>\$ 875</b>             | <b>\$ 484</b>             |
| <b>Earnings per share</b>                           |                           |                           |                           |                           |
| Basic earnings per share                            | \$ 0.47                   | \$ 0.08                   | \$ 5.00                   | \$ 2.82                   |
| Diluted earnings per share                          | \$ 0.47                   | \$ 0.08                   | \$ 4.96                   | \$ 2.79                   |
| <b>Weighted-average number of shares (millions)</b> |                           |                           |                           |                           |
| Basic   | 175.4                     | 173.3                     | 174.9                     | 171.8                     |
| Diluted   | 177.0                     | 174.7                     | 176.5                     | 173.2                     |
| <b>Dividends declared per share</b>                 | <b>\$ 0.3500</b>          | <b>\$ 0.3500</b>          | <b>\$ 1.4000</b>          | <b>\$ 1.3500</b>          |

See notes to interim consolidated financial information.



**CANADIAN PACIFIC RAILWAY LIMITED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in millions of Canadian dollars)

(unaudited)

|  | For the three months      |                           | For the year              |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | ended December 31<br>2013 | ended December 31<br>2012 | ended December 31<br>2013 | ended December 31<br>2012 |
| Net income   | \$ 82                     | \$ 15                     | \$ 875                    | \$ 484                    |
| Net gain (loss) in foreign currency translation adjustments, net of hedging activities | 4                         | (1)                       | 3                         | 11                        |
| Change in derivatives designated as cash flow hedges                                   | (1)                       | (2)                       | (1)                       | 9                         |
| Change in defined benefit pension and post-retirement plans ( <i>Note 3</i> )          | 1,382                     | (211)                     | 1,681                     | (50)                      |
| Other comprehensive income (loss) before income taxes                                  | 1,385                     | (214)                     | 1,683                     | (30)                      |
| Income tax (expense) recovery  | (355)                     | 58                        | (418)                     |                           |
| Equity accounted investments   |                           | (2)                       |                           | (2)                       |
| Other comprehensive income (loss)  | 1,030                     | (158)                     | 1,265                     | (32)                      |
| <b>Comprehensive income (loss)</b>   | <b>\$ 1,112</b>           | <b>\$ (143)</b>           | <b>\$ 2,140</b>           | <b>\$ 452</b>             |

See notes to interim consolidated financial information.

**CANADIAN PACIFIC RAILWAY LIMITED****CONSOLIDATED BALANCE SHEETS**

(in millions of Canadian dollars)

(unaudited)

|  | December 31<br>2013 | December 31<br>2012 |
|--|---------------------|---------------------|
| <b>Assets</b>                                  |                     |                     |
| <b>Current assets</b>                          |                     |                     |
| Cash and cash equivalents                      | \$ 476              | \$ 333              |
| Restricted cash and cash equivalents           | 411                 |                     |
| Accounts receivable, net                       | 580                 | 546                 |
| Materials and supplies                         | 165                 | 136                 |
| Deferred income taxes                          | 344                 | 254                 |
| Other current assets                           | 53                  | 60                  |
|  | 2,029               | 1,329               |
| Investments                                    | 92                  | 83                  |
| Properties (Note 2)                            | 13,327              | 13,013              |
| Assets held for sale (Note 2)                  | 222                 |                     |
| Goodwill and intangible assets (Note 2)        | 162                 | 161                 |
| Pension asset (Note 3)                         | 1,028               |                     |
| Other assets                                   | 200                 | 141                 |
| <b>Total assets</b>                            | <b>\$ 17,060</b>    | <b>\$ 14,727</b>    |
| <b>Liabilities and shareholders equity</b>     |                     |                     |
| <b>Current liabilities</b>                     |                     |                     |
| Accounts payable and accrued liabilities       | \$ 1,189            | \$ 1,176            |
| Long-term debt maturing within one year        | 189                 | 54                  |
|  | 1,378               | 1,230               |
| Pension and other benefit liabilities (Note 3) | 657                 | 1,366               |
| Other long-term liabilities                    | 338                 | 306                 |
| Long-term debt                                 | 4,687               | 4,636               |
| Deferred income taxes                          | 2,903               | 2,092               |
| <b>Total liabilities</b>                       | <b>9,963</b>        | <b>9,630</b>        |
| <b>Shareholders equity</b>                     |                     |                     |
| Share capital                                  | 2,240               | 2,127               |
| Additional paid-in capital                     | 34                  | 41                  |
| Accumulated other comprehensive loss           | (1,503)             | (2,768)             |
| Retained earnings                              | 6,326               | 5,697               |
|  | 7,097               | 5,097               |

|   |    |        |    |        |
|---|----|--------|----|--------|
| <b><i>Total liabilities and shareholders equity</i></b> | \$ | 17,060 | \$ | 14,727 |
|---|----|--------|----|--------|

See notes to interim consolidated financial information.



**CANADIAN PACIFIC RAILWAY LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions of Canadian dollars)

(unaudited)

|   | For the three months      |              | For the year              |                |
|---|---------------------------|--------------|---------------------------|----------------|
|   | ended December 31<br>2013 | 2012         | ended December 31<br>2013 | 2012           |
| <b>Operating activities</b>   |                           |              |                           |                |
| Net income  | \$ 82                     | \$ 15        | \$ 875                    | \$ 484         |
| Reconciliation of net income to cash provided by (used in) operating activities:                    |                           |              |                           |                |
| Depreciation and amortization   | 144                       | 140          | 565                       | 539            |
| Deferred income taxes   | (48)                      | (22)         | 212                       | 140            |
| Pension funding in excess of expense  | (15)                      | (17)         | (55)                      | (61)           |
| Asset impairments ( <i>Note 2</i> )   | 435                       | 265          | 435                       | 265            |
| Labour restructuring, net   | (12)                      | 50           | (29)                      | 50             |
| Other operating activities, net   | (28)                      | (3)          | (51)                      | (84)           |
| Change in non-cash working capital balances related to operations                                   | 101                       | 41           | (2)                       | (5)            |
| <b>Cash provided by operating activities</b>  | <b>659</b>                | <b>469</b>   | <b>1,950</b>              | <b>1,328</b>   |
| <b>Investing activities</b>   |                           |              |                           |                |
| Additions to properties   | (434)                     | (336)        | (1,236)                   | (1,148)        |
| Proceeds from the sale of properties and other assets   | 35                        | 7            | 73                        | 145            |
| Change in restricted cash and cash equivalents used to collateralize letters of credit              | (65)                      |              | (411)                     |                |
| Other   | 4                         | (7)          | (23)                      | (8)            |
| <b>Cash used in investing activities</b>  | <b>(460)</b>              | <b>(336)</b> | <b>(1,597)</b>            | <b>(1,011)</b> |
| <b>Financing activities</b>   |                           |              |                           |                |
| Dividends paid  | (61)                      | (61)         | (244)                     | (223)          |
| Issuance of common shares   | 14                        | 62           | 83                        | 198            |
| Issuance of long-term debt  |                           |              |                           | 71             |
| Repayment of long-term debt   | (11)                      | (9)          | (56)                      | (50)           |
| Net (decrease) in short-term borrowing  |                           |              |                           | (27)           |
| Other   | (3)                       | 1            | (3)                       | 1              |
| <b>Cash used in financing activities</b>  | <b>(61)</b>               | <b>(7)</b>   | <b>(220)</b>              | <b>(30)</b>    |
| <b>Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents</b> | <b>9</b>                  |              | <b>10</b>                 | <b>(1)</b>     |



**CANADIAN PACIFIC RAILWAY LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

(in millions of Canadian dollars, except common share amounts)

(unaudited)

|  | Common<br>shares<br>(in millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|--|-----------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at<br/>January 1, 2013</b>            | 173.9                             | \$ 2,127         | \$ 41                            | \$ (2,768)                                    | \$ 5,697             | \$ 5,097                        |
| Net income                                       |                                   |                  |                                  |   | 875                  | 875                             |
| Other comprehensive<br>income                    |                                   |                  |                                  | 1,265   |                      | 1,265                           |
| Dividends declared                               |                                   |                  |                                  |   | (246)                | (246)                           |
| Effect of stock-based<br>compensation<br>expense |                                   |                  | 17                               |   |                      | 17                              |
| Shares issued under<br>stock option plans        | 1.5                               | 113              | (24)                             |   |                      | 89                              |
| <b>Balance at<br/>December 31, 2013</b>          | 175.4                             | \$ 2,240         | \$ 34                            | \$ (1,503)                                    | \$ 6,326             | \$ 7,097                        |

|  | Common<br>shares<br>(in<br>millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|--|--------------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at<br/>January 1, 2012</b>            | 170.0                                | \$ 1,854         | \$ 86                            | \$ (2,736)                                    | \$ 5,445             | \$ 4,649                        |
| Net income                                       |                                      |                  |                                  |   | 484                  | 484                             |
| Other comprehensive<br>loss                      |                                      |                  |                                  | (32)  |                      | (32)                            |
| Dividends declared                               |                                      |                  |                                  |   | (232)                | (232)                           |
| Effect of stock-based<br>compensation<br>expense |                                      |                  | 25                               |   |                      | 25                              |
| Shares issued under<br>stock option plans        | 3.9                                  | 273              | (70)                             |   |                      | 203                             |
| <b>Balance at<br/>December 31, 2012</b>          | 173.9                                | \$ 2,127         | \$ 41                            | \$ (2,768)                                    | \$ 5,697             | \$ 5,097                        |

See notes to interim consolidated financial information.

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION****December 31, 2013****(unaudited)****1 Basis of presentation**

This unaudited interim consolidated financial information of Canadian Pacific Railway Limited ( CP , or the Company ) reflect management's estimates and assumptions that are necessary for its fair presentation in conformity with accounting principles generally accepted in the United States of America ( GAAP ). They do not include all disclosures required under GAAP for annual and interim financial statements and should be read in conjunction with the 2012 consolidated financial statements and 2013 consolidated interim financial statements. The accounting policies used are consistent with the accounting policies used in preparing the 2012 consolidated financial statements.

CP's operations can be affected by seasonal fluctuations such as changes in customer demand and weather-related issues. This seasonality could impact quarter-over-quarter comparisons.

In management's opinion, the unaudited interim consolidated financial information includes all adjustments necessary to present fairly such information.

**2 Asset impairments**

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. ( G&W ) for the sale of a portion of CP's Dakota, Minnesota & Eastern line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines ( DM&E West ). The sale, which is subject to regulatory approval by the U.S. Surface Transportation Board, is expected to generate approximately US\$215 million in gross proceeds, subject to closing adjustments.

At December 31, 2013, CP has classified DM&E West as an asset held for sale carried at CDN\$222 million, being its estimated fair value less estimated direct selling costs. As a result, in the fourth quarter of 2013, the Company recorded an asset impairment charge and accruals for future costs associated with the sale totaling CDN\$435 million (\$257 million after-tax). The components of the asset impairment charge and charge for the accruals, which are subject to closing adjustments, that were recorded against income as Asset impairments are as follows:

| (in millions of Canadian dollars) | <b>For the three months ended</b> |     |
|-----------------------------------|-----------------------------------|-----|
|                                   | <b>December 31, 2013</b>          |     |
| Property, plant and equipment     | \$                                | 426 |
| Intangible assets                 |                                   | 2   |
| Goodwill                          |                                   | 6   |
| <br>                              |                                   |     |
| Total asset impairment charge     |                                   | 434 |
| Accruals for future costs         |                                   | 1   |

|              |    |     |
|--------------|----|-----|
| Total charge | \$ | 435 |
|--------------|----|-----|

### ***3 Pensions and other benefits***

As a result of higher discount rates at December 31, 2013, compared with December 31, 2012, as well as favourable 2013 equity returns, Pension and other benefit liabilities decreased by \$709 million, and a Pension asset was recognized of \$1,028 million. In addition, Other comprehensive income from the change in defined benefit pension and post-retirement plans was \$1,681 million and the Company's deferred tax liability increased by \$446 million. The Company used a discount rate of 4.90% at December 31, 2013, (2012 4.28%) to determine the pension and other benefits obligation.

**Summary of Rail Data**

| Fourth Quarter            |          |             |       | Year   |          |          |             |      |
|---------------------------|----------|-------------|-------|--|----------|----------|-------------|------|
| 2013                      | 2012     | Fav/(Unfav) | %     | Financial (millions, except<br>per share data)   | 2013     | 2012     | Fav/(Unfav) | %    |
| <b>Revenues</b>           |          |             |       |  |          |          |             |      |
| \$ 1,570                  | \$ 1,464 | \$ 106      | 7     | Freight revenue                                  | \$ 5,982 | \$ 5,550 | \$ 432      | 8    |
| 37                        | 38       | (1)         | (3)   | Other revenue                                    | 151      | 145      | 6           | 4    |
| 1,607                     | 1,502    | 105         | 7     | Total revenues                                   | 6,133    | 5,695    | 438         | 8    |
| <b>Operating expenses</b> |          |             |       |  |          |          |             |      |
| 343                       |          |             |       | Compensation and<br>benefits                     | 1,418    | 1,506    | 88          | 6    |
|                           | 378      | 35          | 9     | Fuel   | 1,004    | 999      | (5)         | (1)  |
| 262                       | 256      | (6)         | (2)   | Materials  | 249      | 238      | (11)        | (5)  |
| 65                        | 60       | (5)         | (8)   | Equipment rents                                  | 173      | 206      | 33          | 16   |
| 39                        | 48       | 9           | 19    | Depreciation and<br>amortization                 | 565      | 539      | (26)        | (5)  |
| 144                       | 140      | (4)         | (3)   | Purchased services and<br>other                  | 876      | 940      | 64          | 7    |
| 212                       | 242      | 30          | 12    | Asset impairments                                | 435      | 265      | (170)       | (64) |
| 435                       | 265      | (170)       | (64)  | Labour restructuring                             | (7)      | 53       | 60          |      |
| (7)                       | 53       | 60          |       | Total operating expenses                         | 4,713    | 4,746    | 33          | 1    |
| 1,493                     | 1,442    | (51)        | (4)   | Operating income                                 | 1,420    | 949      | 471         | 50   |
| 114                       | 60       | 54          | 90    | Less:  |          |          |             |      |
| 6                         | 3        | (3)         | (100) | Other income and charges                         | 17       | 37       | 20          | 54   |
| 70                        | 69       | (1)         | (1)   | Net interest expense                             | 278      | 276      | (2)         | (1)  |
| 38                        |          |             |       | Income (loss) before income<br>tax expense       | 1,125    | 636      | 489         | 77   |
| (44)                      | (12)     | 50          |       | Income tax (recovery)<br>expense                 | 250      | 152      | (98)        | (64) |
|                           | (27)     | 17          | 63    | Net income                                       | \$ 875   | \$ 484   | \$ 391      | 81   |
| \$ 82                     | \$ 15    | \$ 67       | 447   | Operating ratio (%)                              | 76.8     | 83.3     | 6.5         | 650  |
| 92.9                      | 96.0     | 3.1         | 310   | Basic earnings per share                         | \$ 5.00  | \$ 2.82  | \$ 2.18     | 77   |
| \$ 0.47                   | \$ 0.08  | \$ 0.39     | 488   | Diluted earnings per<br>share                    | \$ 4.96  | \$ 2.79  | \$ 2.17     | 78   |
|                           | \$ 0.08  | \$ 0.39     | 488   | <b>Shares Outstanding</b>                        |          |          |             |      |
| 175.4                     | 173.3    | 2.1         | 1     | Weighted average number<br>of shares outstanding | 174.9    | 171.8    | 3.1         | 2    |

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| (millions)                                |       |      |          |                        |       |       |      |          |
|---|-------|------|----------|------------------------|-------|-------|------|----------|
| Weighted average number of diluted shares |       |      |          |                        |       |       |      |          |
| 177.0                                     | 174.7 | 2.3  | <b>1</b> | outstanding (millions) | 176.5 | 173.2 | 3.3  | <b>2</b> |
| <b>Foreign Exchange</b>                   |       |      |          |                        |       |       |      |          |
| Average foreign exchange rate             |       |      |          |                        |       |       |      |          |
| 0.96                                      | 1.01  | 0.05 | <b>5</b> | (US\$/Canadian\$)      | 0.97  | 1.00  | 0.03 | <b>3</b> |
| Average foreign exchange rate             |       |      |          |                        |       |       |      |          |
| 1.04                                      | 0.99  | 0.05 | <b>5</b> | (Canadian\$/US\$)      | 1.03  | 1.00  | 0.03 | <b>3</b> |



**Summary of Rail Data (Page 2)**

| <b>Fourth Quarter</b>       |             |                    |            | <b>Year</b>               |             |             |                    |            |
|-----------------------------|-------------|--------------------|------------|---------------------------|-------------|-------------|--------------------|------------|
| <b>2013</b>                 | <b>2012</b> | <b>Fav/(Unfav)</b> | <b>%</b>   |                           | <b>2013</b> | <b>2012</b> | <b>Fav/(Unfav)</b> | <b>%</b>   |
| <b>Commodity Data</b>       |             |                    |            |                           |             |             |                    |            |
| <b>Freight Revenues</b>     |             |                    |            |                           |             |             |                    |            |
| <b>(millions)</b>           |             |                    |            |                           |             |             |                    |            |
| \$ 385                      | \$ 355      | \$ 30              | <b>8</b>   | - Grain                   | \$ 1,300    | \$ 1,172    | \$ 128             | <b>11</b>  |
| 157                         | 156         | 1                  | <b>1</b>   | - Coal                    | 627         | 602         | 25                 | <b>4</b>   |
| 126                         | 133         | (7)                | <b>(5)</b> | - Fertilizers and sulphur | 570         | 520         | 50                 | <b>10</b>  |
| 413                         |             |                    |            | - Industrial and          |             |             |                    |            |
|                             | 335         | 78                 | <b>23</b>  | consumer products         | 1,548       | 1,268       | 280                | <b>22</b>  |
| 105                         | 99          | 6                  | <b>6</b>   | - Automotive              | 403         | 425         | (22)               | <b>(5)</b> |
| 49                          | 46          | 3                  | <b>7</b>   | - Forest products         | 206         | 193         | 13                 | <b>7</b>   |
| 335                         | 340         | (5)                | <b>(1)</b> | - Intermodal              | 1,328       | 1,370       | (42)               | <b>(3)</b> |
| \$ 1,570                    | \$ 1,464    | \$ 106             | <b>7</b>   | Total Freight Revenues    | \$ 5,982    | \$ 5,550    | \$ 432             | <b>8</b>   |
| <b>Millions of Revenue</b>  |             |                    |            |                           |             |             |                    |            |
| <b>Ton-Miles (RTM)</b>      |             |                    |            |                           |             |             |                    |            |
| 10,006                      | 9,628       | 378                | <b>4</b>   | - Grain                   | 33,983      | 33,082      | 901                | <b>3</b>   |
| 5,776                       | 5,809       | (33)               | <b>(1)</b> | - Coal                    | 23,172      | 22,375      | 797                | <b>4</b>   |
| 3,850                       | 3,838       | 12                 |            | - Fertilizers and sulphur | 18,170      | 17,058      | 1,112              | <b>7</b>   |
| 9,988                       |             |                    |            | - Industrial and          |             |             |                    |            |
|                             | 8,347       | 1,641              | <b>20</b>  | consumer products         | 37,875      | 30,469      | 7,406              | <b>24</b>  |
| 563                         | 561         | 2                  |            | - Automotive              | 2,329       | 2,482       | (153)              | <b>(6)</b> |
| 1,036                       | 1,129       | (93)               | <b>(8)</b> | - Forest products         | 4,619       | 4,713       | (94)               | <b>(2)</b> |
| 6,192                       | 6,217       | (25)               |            | - Intermodal              | 24,101      | 24,853      | (752)              | <b>(3)</b> |
| 37,411                      | 35,529      | 1,882              | <b>5</b>   | Total RTMs                | 144,249     | 135,032     | 9,217              | <b>7</b>   |
| <b>Freight Revenue per</b>  |             |                    |            |                           |             |             |                    |            |
| <b>RTM (cents)</b>          |             |                    |            |                           |             |             |                    |            |
| 3.84                        | 3.69        | 0.15               | <b>4</b>   | - Grain                   | 3.82        | 3.54        | 0.28               | <b>8</b>   |
| 2.72                        | 2.69        | 0.03               | <b>1</b>   | - Coal                    | 2.71        | 2.69        | 0.02               | <b>1</b>   |
| 3.26                        | 3.47        | (0.21)             | <b>(6)</b> | - Fertilizers and sulphur | 3.14        | 3.05        | 0.09               | <b>3</b>   |
| 4.14                        |             |                    |            | - Industrial and          |             |             |                    |            |
|                             | 4.01        | 0.13               | <b>3</b>   | consumer products         | 4.09        | 4.16        | (0.07)             | <b>(2)</b> |
| 18.64                       | 17.65       | 0.99               | <b>6</b>   | - Automotive              | 17.27       | 17.12       | 0.15               | <b>1</b>   |
| 4.74                        | 4.07        | 0.67               | <b>16</b>  | - Forest products         | 4.46        | 4.10        | 0.36               | <b>9</b>   |
| 5.42                        | 5.47        | (0.05)             | <b>(1)</b> | - Intermodal              | 5.51        | 5.51        |                    |            |
| 4.20                        |             |                    |            | Total Freight Revenue per |             |             |                    |            |
|                             | 4.12        | 0.08               | <b>2</b>   | RTM                       | 4.15        | 4.11        | 0.04               | <b>1</b>   |
| <b>Carloads (thousands)</b> |             |                    |            |                           |             |             |                    |            |
| 121                         | 122         | (1)                | <b>(1)</b> | - Grain                   | 438         | 433         | 5                  | <b>1</b>   |
| 84                          | 88          | (4)                | <b>(5)</b> | - Coal                    | 330         | 337         | (7)                | <b>(2)</b> |
| 41                          | 43          | (2)                | <b>(5)</b> | - Fertilizers and sulphur | 185         | 177         | 8                  | <b>5</b>   |

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|     |     |     |            |                   |       |       |      |             |
|-----|-----|-----|------------|-------------------|-------|-------|------|-------------|
| 133 |     |     |            | - Industrial and  |       |       |      |             |
|     | 119 | 14  | <b>12</b>  | consumer products | 519   | 469   | 50   | <b>11</b>   |
| 38  | 39  | (1) | <b>(3)</b> | - Automotive      | 146   | 162   | (16) | <b>(10)</b> |
| 15  | 16  | (1) | <b>(6)</b> | - Forest products | 66    | 67    | (1)  | <b>(1)</b>  |
| 254 | 253 | 1   |            | - Intermodal      | 1,004 | 1,024 | (20) | <b>(2)</b>  |
| 686 | 680 | 6   | <b>1</b>   | Total Carloads    | 2,688 | 2,669 | 19   | <b>1</b>    |

**Freight Revenue per  
Carload**

|          |          |        |            |                           |          |          |        |            |
|----------|----------|--------|------------|---------------------------|----------|----------|--------|------------|
| \$ 3,161 | \$ 2,910 | \$ 251 | <b>9</b>   | - Grain                   | \$ 2,964 | \$ 2,707 | \$ 257 | <b>9</b>   |
| 1,888    | 1,773    | 115    | <b>6</b>   | - Coal                    | 1,904    | 1,786    | 118    | <b>7</b>   |
| 3,065    | 3,093    | (28)   | <b>(1)</b> | - Fertilizers and sulphur | 3,083    | 2,938    | 145    | <b>5</b>   |
| 3,105    |          |        |            | - Industrial and          |          |          |        |            |
|          | 2,815    | 290    | <b>10</b>  | consumer products         | 2,982    | 2,704    | 278    | <b>10</b>  |
| 2,797    | 2,538    | 259    | <b>10</b>  | - Automotive              | 2,758    | 2,623    | 135    | <b>5</b>   |
| 3,254    | 2,875    | 379    | <b>13</b>  | - Forest products         | 3,132    | 2,881    | 251    | <b>9</b>   |
| 1,322    | 1,344    | (22)   | <b>(2)</b> | - Intermodal              | 1,324    | 1,338    | (14)   | <b>(1)</b> |
| \$ 2,291 |          |        |            | Total Freight Revenue per |          |          |        |            |
|          | \$ 2,153 | \$ 138 | <b>6</b>   | Carload                   | \$ 2,226 | \$ 2,079 | \$ 147 | <b>7</b>   |

**Summary of Rail Data (Page 3)**

| 2013                          | Fourth Quarter      |             |            |  | Year    |                     |             |            |
|-------------------------------|---------------------|-------------|------------|--|---------|---------------------|-------------|------------|
|                               | 2012 <sup>(1)</sup> | Fav/(Unfav) | %          |  | 2013    | 2012 <sup>(1)</sup> | Fav/(Unfav) | %          |
| <b>Operations Performance</b> |                     |             |            |  |         |                     |             |            |
| 68,531                        |                     |             |            | Freight gross ton-miles ( GTM )                |         |                     |             |            |
|                               | 66,204              | 2,327       | <b>4</b>   | (millions)                                     | 267,629 | 254,354             | 13,275      | <b>5</b>   |
| 9,341                         | 10,046              | (705)       | <b>(7)</b> | Train miles (thousands)                        | 37,817  | 40,270              | (2,453)     | <b>(6)</b> |
| 7,844                         |                     |             |            | Average train weight excluding                 |         |                     |             |            |
|                               | 7,014               | 830         | <b>12</b>  | local traffic (tons)                           | 7,573   | 6,709               | 864         | <b>13</b>  |
| 6,668                         |                     |             |            | Average train length excluding                 |         |                     |             |            |
|                               | 6,198               | 470         | <b>8</b>   | local traffic (feet) <sup>(2)</sup>            | 6,530   | 5,981               | 549         | <b>9</b>   |
| 7.9                           | 7.4                 | (0.5)       | <b>(7)</b> | Average terminal dwell (hours) <sup>(3)</sup>  | 7.1     | 7.5                 | 0.4         | <b>5</b>   |
| 17.6                          | 17.6                |             |            | Average train speed (mph) <sup>(4)</sup>       | 18.2    | 18.0                | 0.2         | <b>1</b>   |
|                               |                     |             |            | Locomotive productivity (daily                 |         |                     |             |            |
|                               |                     |             |            | average GTMs/active horsepower                 |         |                     |             |            |
| 223.2                         | 197.1               | 26.1        | <b>13</b>  | ( HP ))  | 216.0   | 179.8               | 36.2        | <b>20</b>  |
| 1.06                          | 1.14                | 0.08        | <b>7</b>   | Fuel efficiency (U.S. gallon of fuel           | 1.06    | 1.15                | 0.09        | <b>8</b>   |
| 71.4                          |                     |             |            | consumed/1,000 GTMs)                           |         |                     |             |            |
|                               | 74.4                | 3.0         | <b>4</b>   | U.S. gallons of locomotive fuel                | 281.7   | 289.2               | 7.5         | <b>3</b>   |
| 3.51                          |                     |             |            | consumed (millions) <sup>(5)</sup>             |         |                     |             |            |
|                               | 3.47                | (0.04)      | <b>(1)</b> | Average fuel price (U.S. dollars               | 3.47    | 3.45                | (0.02)      | <b>(1)</b> |
| 14,677                        | 16,369              | 1,692       | <b>10</b>  | per U.S. gallon)                               |         |                     |             |            |
| 14,506                        | 15,713              | 1,207       | <b>8</b>   | Total employees (average) <sup>(6)(7)</sup>    | 15,011  | 16,999              | 1,988       | <b>12</b>  |
| 14,977                        | 16,907              | 1,930       | <b>11</b>  | Total employees (end of period) <sup>(6)</sup> | 14,506  | 15,713              | 1,207       | <b>8</b>   |
|                               |                     |             |            | Workforce (end of period) <sup>(8)</sup>       | 14,977  | 16,907              | 1,930       | <b>11</b>  |
| <b>Safety</b>                 |                     |             |            |  |         |                     |             |            |
| 1.77                          |                     |             |            | FRA personal injuries per 200,000              |         |                     |             |            |
|                               | 2.05                | 0.28        | <b>14</b>  | employee-hours                                 | 1.69    | 1.55                | (0.14)      | <b>(9)</b> |
| 1.35                          |                     |             |            | FRA train accidents per million                |         |                     |             |            |
|                               | 1.68                | 0.33        | <b>20</b>  | train-miles                                    | 1.78    | 1.67                | (0.11)      | <b>(7)</b> |

- (1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
- (2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive s equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.
- (3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.
- (4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.
- (5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
- (6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.
- (7) 2012 Year-to-date average number of employees has been adjusted for the strike.

- (8) Workforce is defined as total employees plus part time employees, contractors, and consultants.

### **Non-GAAP Measures Unaudited**

We present non-GAAP measures and cash flow information to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with the results of our operations in prior periods. These non-GAAP measures exclude significant items that are not among our normal ongoing revenues and operating expenses. They have no standardized meanings and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

### **Adjusted Performance Measures**

Income, excluding significant items, also referred to as Adjusted net income, provides management with a measure of income that allows a multi-period assessment of long-term profitability and also allows management and other external users of our consolidated financial statements to compare profitability on a long-term basis with that of our peers.

Operating income, excluding significant items, also referred to as Adjusted operating income, provides a measure of the profitability of the railway on an ongoing basis.

Operating expenses, excluding significant items, also referred to as Adjusted operating expenses, provides relevant and useful information for evaluating the effectiveness of our operations and underlying business trends.

Diluted earnings per share ( EPS ), excluding significant items, also referred to as Adjusted EPS, provides the same information on a per share basis.

Operating ratio, excluding significant items, also referred to as Adjusted operating ratio, and calculated as Operating expenses, excluding significant items divided by total revenues, provides the percentage of total revenues used to operate the railway on an ongoing basis.

Significant items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets and other items that are not normal course business activities.

### ***Reconciliation of Non-GAAP measures to GAAP measures***

The following tables reconcile Adjusted operating expenses, Adjusted operating income and Adjusted net income, to Operating expenses, Operating income and Net income, respectively.

| (in millions of Canadian dollars)            | For the year<br>ended December 31 |          | For the three months<br>ended December 31 |          |
|--|-----------------------------------|----------|---|----------|
|  | 2013                              | 2012     | 2013                                      | 2012     |
| <b>Adjusted operating expenses</b>           | <b>\$ 4,289</b>                   | \$ 4,386 | <b>\$ 1,060</b>                           | \$ 1,124 |
| Add (less) significant items:                |                                   |          |   |          |
| Labour restructuring                         | (7)                               | 53       | (7)                                       | 53       |
| Asset impairments                            | 435                               | 265      | 435                                       | 265      |
| Management transition costs                  | (4)                               | 42       | 5   |          |
| <b>Operating expenses</b>                    | <b>\$ 4,713</b>                   | \$ 4,746 | <b>\$ 1,493</b>                           | \$ 1,442 |
| <b>Adjusted operating income</b>             | <b>\$ 1,844</b>                   | \$ 1,309 | <b>\$ 547</b>                             | \$ 378   |
| Less (add) significant items:                |                                   |          |   |          |
| Labour restructuring                         | (7)                               | 53       | (7)                                       | 53       |
| Asset impairments                            | 435                               | 265      | 435                                       | 265      |
| Management transition costs                  | (4)                               | 42       | 5   |          |
| <b>Operating income</b>                      | <b>\$ 1,420</b>                   | \$ 949   | <b>\$ 114</b>                             | \$ 60    |
| <b>Adjusted net income</b>                   | <b>\$ 1,132</b>                   | \$ 753   | <b>\$ 338</b>                             | \$ 224   |
| Less (add) significant items, net of tax:    |                                   |          |   |          |
| Labour restructuring                         | (5)                               | 39       | (5)                                       | 39       |
| Asset impairments                            | 257                               | 170      | 257                                       | 170      |
| Management transition costs                  | (2)                               | 29       | 4   |          |
| Advisory fees related to shareholder matters |                                   | 20       |   |          |
| Income tax rate change                       | 7                                 | 11       |   |          |
| <b>Net income</b>                            | <b>\$ 875</b>                     | \$ 484   | <b>\$ 82</b>                              | \$ 15    |

The following tables reconcile Diluted earnings per share, excluding significant items and Adjusted operating ratio, excluding significant items to Diluted earnings per share and Operating ratio, respectively.

|   | For the year ended |                | For the three months ended |                |
|---|--------------------|----------------|----------------------------|----------------|
|   | December 31        |                | December 31                |                |
| Diluted earnings per share<br>(in millions of Canadian dollars) | 2013               | 2012           | 2013                       | 2012           |
| Excluding significant items                                     | \$ 6.42            | \$ 4.34        | \$ 1.91                    | \$ 1.28        |
| Less (add) significant items:                                   |                    |                |                            |                |
| Labour restructuring  | (0.03)             | 0.22           | (0.03)                     | 0.22           |
| Asset impairments   | 1.46               | 0.98           | 1.45                       | 0.98           |
| Management transition costs                                     | (0.01)             | 0.17           | 0.02                       |                |
| Advisory fees related to shareholder matters                    |                    | 0.12           |                            |                |
| Income tax rate change  | 0.04               | 0.06           |                            |                |
| <b>Diluted earnings per share as reported</b>                   | <b>\$ 4.96</b>     | <b>\$ 2.79</b> | <b>\$ 0.47</b>             | <b>\$ 0.08</b> |

|  | For the year ended |              | For the three months ended |              |
|--|--------------------|--------------|----------------------------|--------------|
|  | December 31        |              | December 31                |              |
| Operating ratio<br>(in millions of Canadian dollars) | 2013               | 2012         | 2013                       | 2012         |
| Excluding significant items                          | 69.9%              | 77.0%        | 65.9%                      | 74.8%        |
| Add (less) significant items:                        |                    |              |                            |              |
| Labour restructuring                                 | (0.1)%             | 0.9%         | (0.4)%                     | 3.5%         |
| Asset impairments                                    | 7.1%               | 4.7%         | 27.1%                      | 17.7%        |
| Management transition costs                          | (0.1)%             | 0.7%         | 0.3%                       |              |
| <b>Operating ratio as reported</b>                   | <b>76.8%</b>       | <b>83.3%</b> | <b>92.9%</b>               | <b>96.0%</b> |

### Free Cash

Free cash and cash flow before dividends are non-GAAP measures that management considers to be indicators of liquidity. The measures are used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provide comparable measures for period to period changes. Free cash is calculated as cash provided by operating activities, less cash used in investing activities, excluding changes in restricted cash and cash equivalents and investment balances used to collateralize letters of credit, and dividends paid, adjusted for changes in cash and cash equivalents balances resulting from foreign exchange ( FX ) fluctuations.

|   | For the year ended December 31 |          | For the three months ended December 31 |        |
|---|--------------------------------|----------|--|--------|
|   | 2013                           | 2012     | 2013                                   | 2012   |
| Reconciliation of free cash to GAAP cash position<br>(in million of Canadian dollars)               |                                |          |  |        |
| Cash provided by operating activities   | \$ 1,950                       | \$ 1,328 | \$ 659                                 | \$ 469 |
| Cash used in investing activities   | (1,597)                        | (1,011)  | (460)                                  | (336)  |
| Change in restricted cash and cash equivalents used to collateralize letters of credit              | 411                            |          | 65                                     |        |
| Dividends paid  | (244)                          | (223)    | (61)                                   | (61)   |
| Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents        | 10                             | (1)      | 9                                      |        |
| <b>Free cash<sup>(1)</sup></b>  | <b>530</b>                     | 93       | <b>212</b>                             | 72     |
| Cash provided by financing activities, excluding dividend payment <sup>(1)</sup>                    | 24                             | 193      |  | 54     |
| Change in restricted cash and cash equivalents used to collateralize letters of credit              | (411)                          |          | (65)                                   |        |
| <b>Increase in cash and cash equivalents, as shown on the Consolidated Statements of Cash Flows</b> | <b>143</b>                     | 286      | <b>147</b>                             | 126    |
| Cash and cash equivalents at beginning of period  | 333                            | 47       | 329                                    | 207    |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 476</b>                  | \$ 333   | <b>\$ 476</b>                          | \$ 333 |

(1) Free cash and Cash provided by financing activities, excluding dividend payment have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

#### Foreign Exchange Adjusted Variance

Foreign exchange adjusted variance ( FX adj. variance ) allows certain financial 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. Financial results at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period. Measures at constant currency are considered non-GAAP measures and do not have any standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

| (in millions of Canadian dollars) | For the year ended December 31 |          |                    |                              |                          | For the three months ended December 31 |          |                    |                              |                          |
|-----------------------------------|--------------------------------|----------|--------------------|------------------------------|--------------------------|--|----------|--------------------|------------------------------|--------------------------|
|                                   | 2013                           | 2012     | Variance due to FX | Adjusted 2012 <sup>(1)</sup> | FX Adj. % <sup>(1)</sup> | 2013                                   | 2012     | Variance due to FX | Adjusted 2012 <sup>(1)</sup> | FX Adj. % <sup>(1)</sup> |
| Freight revenues                  | \$ 5,982                       | \$ 5,550 | \$ 83              | \$ 5,633                     | 6%                       | \$ 1,570                               | \$ 1,464 | \$ 42              | \$ 1,506                     | 4%                       |
| Other revenues                    | 151                            | 145      | 1                  | 146                          | 3%                       | 37                                     | 38       | 1                  | 39                           | (5%)                     |
| <b>Total revenues</b>             | <b>6,133</b>                   | 5,695    | 84                 | 5,779                        | 6%                       | <b>1,607</b>                           | 1,502    | 43                 | 1,545                        | 4%                       |



|                          |                 |        |       |        |      |               |       |      |       |     |
|--------------------------|-----------------|--------|-------|--------|------|---------------|-------|------|-------|-----|
| Total operating expenses | <b>4,713</b>    | 4,746  | 70    | 4,816  | (2%) | <b>1,493</b>  | 1,442 | 41   | 1,483 | 1%  |
| <b>Operating income</b>  | <b>\$ 1,420</b> | \$ 949 | \$ 14 | \$ 963 | 47%  | <b>\$ 114</b> | \$ 60 | \$ 2 | \$ 62 | 84% |

(1) These earnings measures have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.