Contents

	2015	2014	2013
Financial			
Key financial performance indicators			
Total revenues *($ millions)*	**12,611**	12,134	10,575
Rail freight revenues *($ millions)*	**11,905**	11,455	9,951
Operating income *($ millions)*	**5,266**	4,624	3,873
Net income *($ millions)*	**3,538**	3,167	2,612
Diluted earnings per share *($)*	**4.39**	3.85	3.09
Adjusted diluted earnings per share *($)* (1)	**4.44**	3.76	3.06
Free cash flow *($ millions)* (2)	**2,373**	2,220	1,623
Gross property additions *($ millions)*	**2,706**	2,297	2,017
Share repurchases *($ millions)*	**1,750**	1,505	1,400
Dividends per share *($)*	**1.25**	1.00	0.86
Financial position			
Total assets *($ millions)* (3)	**36,402**	31,687	29,988
Total liabilities *($ millions)* (3)	**21,452**	18,217	17,035
Shareholders' equity *($ millions)*	**14,950**	13,470	12,953
Financial ratios			
Operating ratio *(%)*	**58.2**	61.9	63.4
Adjusted debt-to-total capitalization ratio *(%)* (3) (4)	**42.5**	40.0	39.3
Adjusted debt-to-adjusted EBITDA *(times)* (3) (4)	**1.71**	1.57	1.72
Operations (5)			
Statistical operating data			
Gross ton miles (GTMs) *(millions)*	**442,084**	448,765	401,390
Revenue ton miles (RTMs) *(millions)*	**224,710**	232,138	210,133
Carloads *(thousands)*	**5,485**	5,625	5,190
Route miles *(includes Canada and the U.S.)*	**19,600**	19,600	20,000
Employees *(end of year)*	**23,172**	25,530	23,721
Employees *(average for the year)*	**24,575**	24,635	23,705
Key operating measures			
Rail freight revenue per RTM *(cents)*	**5.30**	4.93	4.74
Rail freight revenue per carload *($)*	**2,170**	2,036	1,917
GTMs per average number of employees *(thousands)*	**17,989**	18,217	16,933
Operating expenses per GTM *(cents)*	**1.66**	1.67	1.67
Labor and fringe benefits expense per GTM *(cents)*	**0.54**	0.52	0.54
Diesel fuel consumed *(US gallons in millions)*	**425.0**	440.5	403.7
Average fuel price *($/US gallon)*	**2.68**	3.72	3.55
GTMs per US gallon of fuel consumed	**1,040**	1,019	994
Terminal dwell *(hours)*	**15.0**	16.9	15.8
Train velocity *(miles per hour)*	**26.3**	25.7	26.6
Safety indicators (6)			
Injury frequency rate *(per 200,000 person hours)*	**1.63**	1.81	1.69
Accident rate *(per million train miles)*	**2.06**	2.73	2.11

(1) See the section entitled Adjusted performance measures in the MD&A for an explanation of this non-GAAP measure.

(2) See the section entitled Liquidity and capital resources - Free cash flow in the MD&A for an explanation of this non-GAAP measure.

(3) As a result of the retrospective adoption of new accounting standards in the fourth quarter of 2015, certain 2014 and 2013 balances have been adjusted and the related financial ratios have been restated. See Note 2 - Recent accounting pronouncements to the Company's 2015 Annual Consolidated Financial Statements for additional information.

(4) See the section entitled Liquidity and capital resources - Credit measures in the MD&A for an explanation of this non-GAAP measure.

(5) Statistical operating data, key operating measures and safety indicators are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available, as such, certain of the comparative data have been restated. Definitions of these indicators are provided on our website, www.cn.ca/glossary.

(6) Based on Federal Railroad Administration (FRA) reporting criteria.

This Management's Discussion and Analysis (MD&A) dated February 1, 2016, relates to the consolidated financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or the "Company," and should be read in conjunction with the Company's 2015 Annual Consolidated Financial Statements and Notes thereto. All financial information reflected herein is expressed in Canadian dollars, and prepared in accordance with United States generally accepted accounting principles (U.S. GAAP), unless otherwise noted.

CN's common shares are listed on the Toronto and New York stock exchanges. Additional information about CN filed with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC), including the Company's 2015 Annual Information Form and Form 40-F, may be found online at www.sedar.com, www.sec.gov, and on our website, www.cn.ca/regulatory-filings. The Company's Notice of Intention to Make a Normal Course Issuer Bid may be found online at www.sedar.com and www.sec.gov. Copies of such documents may be obtained by contacting the Corporate Secretary's office.

Business profile

CN is engaged in the rail and related transportation business. CN's network of approximately 20,000 route miles of track spans Canada and mid-America, uniquely connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network and efficient connections to all Class I railroads provide CN customers access to all three North American Free Trade Agreement (NAFTA) nations. A true backbone of the economy, CN handles over $250 billion worth of goods annually and carries more than 300 million tons of cargo, serving exporters, importers, retailers, farmers and manufacturers.

CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. In 2015, no individual commodity group accounted for more than 23% of total revenues. From a geographic standpoint, 18% of revenues relate to United States (U.S.) domestic traffic, 33% transborder traffic, 18% Canadian domestic traffic and 31% overseas traffic. The Company is the originating carrier for approximately 85% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Corporate organization

The Company manages its rail operations in Canada and the U.S. as one business segment. Financial information reported at this level, such as revenues, operating income and cash flow from operations, is used by the Company's corporate management in evaluating financial and operational performance and allocating resources across CN's network. The Company's strategic initiatives are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region), whose role is to manage the day-to-day service requirements of their respective territories, control direct costs incurred locally, and execute the strategy and operating plan established by corporate management.

See *Note 18 – Segmented information* to the Company's 2015 Annual Consolidated Financial Statements for additional information on the Company's corporate organization, as well as selected financial information by geographic area.

Strategy overview

CN's business strategy is anchored on the continuous pursuit of *Operational and Service Excellence*, an unwavering commitment to safety and sustainability, and the development of a solid team of motivated and competent railroaders. CN's goal is to deliver valuable transportation services for its customers and to grow the business at low incremental cost. CN thereby creates value for its shareholders by striving for sustainable financial performance through profitable top-line growth, adequate free cash flow and return on invested capital. CN is also focused on returning value to shareholders through dividend payments and share repurchase programs. With a clear strategic agenda, driven by a commitment to innovation, productivity, supply-chain collaboration, while running trains safely and minimizing environmental impact, CN aims to create value for its customers as well as its shareholders.

CN's success is dependent on long-term economic viability and on the presence of a supportive regulatory and policy environment that drives investment and innovation. CN's success also depends on a stream of capital investments that supports its business strategy. These investments cover a wide range of areas, from track infrastructure and rolling stock, to information technology and other equipment and assets that improve the safety, efficiency and reliability of CN's service offering. Investments in track infrastructure enhance the productivity and integrity of the plant, and increase the capacity and the fluidity of the network. The acquisition of new locomotives and cars generates several key benefits. New motive power increases fuel productivity and efficiency, and improves the reliability of service. Units equipped with distributed power allow for greater productivity of trains, particularly in cold weather, while improving train handling and safety. Targeted car acquisitions aim to tap growth opportunities, complementing the fleet of privately owned railcars that traverse CN's network. CN's strategic investments in information technology provide access to timely and accurate information which supports CN's ongoing efforts to drive innovation and efficiency in service, cost control, asset utilization, safety and employee engagement.

Balancing "Operational and Service Excellence"

The basic driver of the Company's business is demand for reliable, efficient, and cost effective transportation for customers. As such, the Company's focus is the pursuit of *Operational and Service Excellence*: striving to operate safely and efficiently while providing a high level of service to customers.

For many years, CN has operated with a mindset that drives cost efficiency and asset utilization. That mindset flows naturally from CN's *Precision Railroading* model, which focuses on improving every process that affects delivery of customers' goods. It is a highly disciplined process whereby CN handles individual rail shipments according to a specific trip plan and manages all aspects of railroad operations to meet customer commitments efficiently and profitably. This calls for the relentless measurement of results and the use of such results to generate further execution improvements in the service provided to customers. The Company's continuous search for efficiency is best captured in its performance according to key operating metrics such as car velocity, train speed and locomotive productivity. All are at the center of a highly productive and fluid railroad operation, requiring daily engagement in the field. The Company works hard to run more efficient trains, reduce dwell times at terminals and improve overall network velocity. With CN's business model, fewer railcars and locomotives are needed to ship the same amount of freight in a tight, reliable and efficient operation. The railroad is run based on a disciplined operating methodology, executing with a sense of urgency and accountability. This philosophy is a key contributor to CN's earnings growth and return on invested capital.

CN understands the importance of balancing its drive for productivity with efforts to enhance customer service. The Company's efforts to deliver *Operational and Service Excellence* are anchored on an end-to-end supply chain mindset, working closely with customers and supply chain partners, as well as involving all relevant areas of the Company in the process. By fostering better end-to-end service performance, encouraging all supply-chain players to move away from a silo mentality to daily engagement, information sharing, problem solving, and execution, CN aims to help customers achieve greater competitiveness in their own markets. Supply Chain Collaboration Agreements with ports, terminal operators and customers leverage key performance metrics that drive efficiencies across the entire supply chain.

The Company is strengthening its commitment to *Operational and Service Excellence* through a wide range of innovations anchored on its continuous improvement philosophy. CN is building on its industry leadership in terms of fast and reliable hub-to-hub service by continuing to improve across the range of customer touch points. The Company's major push in first-mile/last-mile service is all about improving the quality of customer interactions – developing a sharper outside-in perspective; better monitoring of traffic forecasts; higher and more responsive car order fulfillment; and proactive customer communication at the local level, supported by iAdvise, an information tool that is improving the reliability and consistency of shipment information.

CN's broad-based service innovations benefit customers and support the Company's goal to drive top-line growth. CN understands the importance of being the best operator in the business, and being the best service innovator as well.

Delivering safely and responsibly

CN is committed to the safety of its employees, the communities in which it operates and the environment. Safety consciousness permeates every aspect of CN's operations. The Company's long-term safety improvement is driven by continued significant investments in infrastructure, rigorous safety processes and a focus on employee training and safety awareness. CN continues to strengthen its safety culture by investing significantly in training, coaching, recognition and employee involvement initiatives.

CN's Safety Management Plan is the framework for putting safety at the center of its day-to-day operations. This proactive plan is designed to minimize risk, drive continuous improvement in the reduction of injuries and accidents, and engage employees at all levels of the organization. CN believes that the rail industry can enhance safety by working more closely with communities. Under CN's structured Community Engagement program, the Company engages with municipal officers and their emergency responders in an effort to assist them in their emergency response planning. In many cases, this outreach includes face-to-face meetings, during which CN discusses its comprehensive safety programs; its safety performance; the nature, volume and economic importance of dangerous commodities it transports through their communities; a review of emergency response planning; and arranging for training sessions for emergency responders. The outreach builds on CN's involvement in the Transportation Community Awareness and Emergency Response (TRANSCAER®), through which the Company has been working for many years to help communities in Canada and the U.S. understand the movement of hazardous materials and what is required in the event of transportation incidents.

CN has been deepening its commitment to a sustainable operation for many years, and has made sustainability an integral part of its business strategy. The best way in which CN can positively impact the environment is by continuously improving the efficiency of its operations, and reducing its carbon footprint. As part of the Company's comprehensive sustainability action plan and to comply with the CN Environmental Policy, the Company engages in a number of initiatives, including the use of fuel-efficient locomotives and trucks that reduce greenhouse gas emissions; increasing operational and building efficiencies; investing in energy-efficient data centers and recycling programs for information technology systems; reducing, recycling and reusing waste and scrap at its facilities and on its network; engaging in modal shift agreements that favor low emission transport services; and participating in the Carbon Disclosure Project to gain a more comprehensive view of its carbon footprint. The Company combines its expert resources, environmental management procedures, training and audits for employees and contractors, and emergency preparedness response activities to help ensure that it conducts its operations and activities while protecting the natural environment. The Company's environmental activities include monitoring CN's environmental performance in Canada and the U.S. (ensuring compliance), identifying environmental issues inside the Company, and managing them in accordance with CN's Environmental Policy. The Environmental Policy is overseen by the Environment, Safety and Security Committee of the Board of Directors, and all employees must demonstrate commitment to it at all times. Certain risk mitigation strategies, such as periodic audits, employee training programs and emergency plans and procedures, are in place to minimize the environmental risks to the Company.

The CN Environmental Policy, the Company's CDP ("Carbon Disclosure Project") Report, the Corporate Citizenship Report "Delivering Responsibly" and the Company's Corporate Governance Manual, which outlines the role and responsibility of the Environment, Safety and Security Committee of the Board of Directors, are available on CN's website.

Building a solid team of railroaders

CN's ability to develop the best railroaders in the industry has been a key contributor to the Company's success. CN recognizes that without the right people – no matter how good a service plan or business model a company may have – it will not be able to fully execute. The Company is addressing changes in employee demographics that will span multiple years, with the workforce undergoing a major renewal. This is why the Company is focused on hiring the right people, onboarding them successfully, helping them build positive relationships with their colleagues, and helping all employees to grow and develop. As part of its strategy to build a solid team of railroaders, the Company leverages its state-of-the-art training facilities in preparing employees to be highly skilled, safety conscious and confident in their work environment. Curricula for technical training and leadership development has been designed to meet the learning needs of CN's railroaders – both current and future. These programs and initiatives provide a solid platform for the assessment and development of the Company's talent pool, and are tightly integrated with the Company's business strategy. Progress made in developing current and future leaders through the Company's leadership development programs is reviewed by the Human Resources and Compensation Committee of the Board of Directors.

2015 Highlights

- The Company attained record revenues, operating income, net income, and earnings per share.
- The Company attained a record operating ratio of 58.2%.
- The Company attained record free cash flow of $2,373 million. See the section of this MD&A entitled *Liquidity and capital resources – Free cash flow* for an explanation of this non-GAAP measure.
- The Company paid quarterly dividends of $0.3125 per share, representing an increase of 25% when compared to 2014, amounting to $996 million.
- The Company repurchased 23.3 million common shares during the year, returning $1.75 billion to its shareholders.
- CN spent $2.7 billion in its capital program, with $1.53 billion targeted at maintaining the safety and integrity of the network, particularly track infrastructure; $555 million for equipment capital expenditures, including 90 new high-horsepower locomotives, and $615 million on initiatives to support growth and drive productivity.
- The Company's sustainability practices once again earned it a place on the Dow Jones Sustainability World and North American Indexes.

Growth opportunities and assumptions

In 2016, the Company sees growth opportunities related to intermodal traffic, as well as commodities tied to U.S. housing construction and automotive sales. Overall, the Company expects North American industrial production to increase by approximately one percent. For the 2015/2016 crop year, the Canadian grain crop was in line with the five-year average and the U.S. grain crop was above the five-year average. The Company assumes that the 2016/2017 grain crops in both Canada and the U.S. will be in line with their respective five-year averages.

Value creation in 2016

- CN plans to invest approximately $2.9 billion in its 2016 capital program, of which $1.5 billion is targeted toward track infrastructure, $0.6 billion on equipment capital expenditures, including adding 90 new high-horsepower locomotives, $0.4 billion on initiatives to drive productivity, and $0.4 billion associated with the U.S. federal government legislative Positive Train Control (PTC) implementation.
- The Company's Board of Directors approved an increase of 20% to the quarterly dividend to common shareholders, from $0.3125 per share in 2015 to $0.3750 per share in 2016.
- The Company's share repurchase program allows for the repurchase of up to 33.0 million common shares between October 30, 2015 and October 29, 2016. As at December 31, 2015, the Company has repurchased 5.8 million common shares under this program.

The forward-looking statements discussed in this MD&A are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed or implied in such statements and are based on certain factors and assumptions which the Company considers reasonable, about events, developments, prospects and opportunities that may not materialize or that may be offset entirely or partially by other events and developments. For assumptions and risk factors, see the sections of this MD&A entitled *Forward-looking statements, Strategy overview – Growth opportunities and assumptions,* and *Business risks.*

Forward-looking statements

Certain information included in this MD&A are "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and under Canadian securities laws. CN cautions that, by their nature, forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. These forward-looking statements include, but are not limited to, statements with respect to growth opportunities; statements that the Company will benefit from growth in North American and global economies; the anticipation that cash flow from operations and from various sources of financing will be sufficient to meet debt repayments and future obligations in the foreseeable future; statements regarding future payments, including income taxes and pension contributions; as well as the projected capital spending program. Forward-looking statements could further be identified by the use of terminology such as the Company "believes," "expects," "anticipates," "assumes" or other similar words.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. Key assumptions used in determining forward-looking information are set forth below. See also the section of this MD&A entitled *Strategy overview - Growth opportunities and assumptions*.

Forward-looking statements	Key assumptions or expectations
Statements relating to general economic and business conditions, including those referring to revenue growth opportunities	• North American and global economic growth • Long-term growth opportunities being less affected by current economic conditions
Statements relating to the Company's ability to meet debt repayments and future obligations in the foreseeable future, including income tax payments, and capital spending	• North American and global economic growth • Adequate credit ratios • Investment-grade credit ratings • Access to capital markets • Adequate cash generated from operations and other sources of financing
Statements relating to pension contributions	• Adequate cash generated from operations and other sources of financing • Adequate long-term return on investment on pension plan assets • Level of funding as determined by actuarial valuations, particularly influenced by discount rates for funding purposes

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or regulatory developments; compliance with environmental laws and regulations; actions by regulators; various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the U.S. See the section entitled *Business risks* of this MD&A for detailed information on major risk factors.

CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable Canadian securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

Financial outlook

During the year, the Company issued and updated its 2015 financial outlook. The 2015 actual results were in line with the Company's last 2015 financial outlook that was issued on October 27, 2015.

Financial highlights

				Change Favorable/(Unfavorable)	
In millions, except percentage and per share data	**2015**	2014	2013	2015 vs 2014	2014 vs 2013
Revenues	**$ 12,611**	$ 12,134	$ 10,575	4%	15%
Operating income	**$ 5,266**	$ 4,624	$ 3,873	14%	19%
Net income	**$ 3,538**	$ 3,167	$ 2,612	12%	21%
Adjusted net income (1)	**$ 3,580**	$ 3,095	$ 2,582	16%	20%
Basic earnings per share	**$ 4.42**	$ 3.86	$ 3.10	15%	25%
Adjusted basic earnings per share (1)	**$ 4.47**	$ 3.77	$ 3.07	19%	23%
Diluted earnings per share	**$ 4.39**	$ 3.85	$ 3.09	14%	25%
Adjusted diluted earnings per share (1)	**$ 4.44**	$ 3.76	$ 3.06	18%	23%
Dividends declared per share	**$ 1.25**	$ 1.00	$ 0.86	25%	16%
Total assets (2)	**$ 36,402**	$ 31,687	$ 29,988	15%	6%
Total long-term liabilities (2)	**$ 18,454**	$ 16,016	$ 14,537	(15%)	(10%)
Operating ratio	**58.2%**	61.9%	63.4%	3.7-pts	1.5-pts
Free cash flow (3)	**$ 2,373**	$ 2,220	$ 1,623	7%	37%

(1) See the section of this MD&A entitled Adjusted performance measures for an explanation of this non-GAAP measure.

(2) As a result of the retrospective adoption of new accounting standards in the fourth quarter of 2015, certain 2014 and 2013 balances have been adjusted. See the section of this MD&A entitled Recent accounting pronouncements for additional information.

(3) See the section of this MD&A entitled Liquidity and capital resources - Free cash flow for an explanation of this non-GAAP measure.

2015 compared to 2014

In 2015, net income was $3,538 million, an increase of $371 million, or 12%, when compared to 2014, with diluted earnings per share rising 14% to $4.39. The $371 million increase was mainly due to higher operating income net of the related income taxes, partly offset by an increase in Interest expense and a decrease in Other income.

Operating income for the year ended December 31, 2015 increased by $642 million, or 14%, to $5,266 million. The operating ratio, defined as operating expenses as a percentage of revenues, was 58.2% in 2015, compared to 61.9% in 2014, a 3.7-point improvement.

Revenues for the year ended December 31, 2015 increased by $477 million, or 4%, to $12,611 million, mainly attributable to:

- the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues;
- freight rate increases; and
- solid overseas intermodal demand, higher volumes of finished vehicle traffic, and increased shipments of lumber and panels to U.S. markets.

These factors were partly offset by a lower applicable fuel surcharge rate; and decreased shipments of energy-related commodities including crude oil, frac sand and drilling pipe, lower volumes of semi-finished steel products and short-haul iron ore, reduced shipments of coal due to weaker North American and global demand, as well as lower U.S. grain exports via the Gulf of Mexico.

Operating expenses for the year ended December 31, 2015 decreased by $165 million, or 2%, to $7,345 million, primarily due to lower fuel expense and cost-management efforts, partly offset by the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses.

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.

For the year ended December 31, 2015, the Company reported adjusted net income of $3,580 million, or $4.44 per diluted share. The adjusted figures for the year ended December 31, 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 year ended December 31, 2014, the Company reported adjusted net income of $3,095 million, or $3.76 per diluted share. 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 (collectively the "Deux-Montagnes"), of $80 million, or $72 million after-tax ($0.09 per diluted share).

For the year ended December 31, 2013, the Company reported adjusted net income of $2,582 million, or $3.06 per diluted share. 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 (collectively the "exchange of easements") 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 (collectively the "Lakeshore West") 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 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 years ended December 31, 2015, 2014 and 2013, to the adjusted performance measures presented herein:

In millions, except per share data Year ended December 31,	**2015**	2014	2013
Net income as reported	**$ 3,538**	$ 3,167	$ 2,612
Adjustments:			
Other income	**-**	(80)	(69)
Income tax expense	**42**	8	39
Adjusted net income	**$ 3,580**	$ 3,095	$ 2,582
Basic earnings per share as reported	**$ 4.42**	$ 3.86	$ 3.10
Impact of adjustments, per share	**0.05**	(0.09)	(0.03)
Adjusted basic earnings per share	**$ 4.47**	$ 3.77	$ 3.07
Diluted earnings per share as reported	**$ 4.39**	$ 3.85	$ 3.09
Impact of adjustments, per share	**0.05**	(0.09)	(0.03)
Adjusted diluted earnings per share	**$ 4.44**	$ 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 $1.28 and $1.10 per US$1.00, for the years ended December 31, 2015 and 2014, respectively.

On a constant currency basis, the Company's net income for the year ended December 31, 2015 would have been lower by $314 million ($0.39 per diluted share).

Revenues

In millions, unless otherwise indicated *Year ended December 31,*	2015	2014	% Change	% Change at constant currency
Rail freight revenues	**$ 11,905**	$ 11,455	4%	(4%)
Other revenues	**706**	679	4%	(6%)
Total revenues	**$ 12,611**	$ 12,134	4%	(5%)
Rail freight revenues				
Petroleum and chemicals	**$ 2,442**	$ 2,354	4%	(6%)
Metals and minerals	**1,437**	1,484	(3%)	(13%)
Forest products	**1,728**	1,523	13%	2%
Coal	**612**	740	(17%)	(25%)
Grain and fertilizers	**2,071**	1,986	4%	(3%)
Intermodal	**2,896**	2,748	5%	-
Automotive	**719**	620	16%	4%
Total rail freight revenues	**$ 11,905**	$ 11,455	4%	(4%)
Revenue ton miles (RTMs) *(millions)*	**224,710**	232,138	(3%)	(3%)
Rail freight revenue/RTM *(cents)*	**5.30**	4.93	8%	(1%)
Carloads *(thousands)*	**5,485**	5,625	(2%)	(2%)
Rail freight revenue/carload *(dollars)*	**2,170**	2,036	7%	(2%)

Revenues for the year ended December 31, 2015, totaled $12,611 million compared to $12,134 million in 2014. The increase of $477 million, or 4%, was mainly attributable to the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; freight rate increases; and solid overseas intermodal demand, higher volumes of finished vehicle traffic, and increased shipments of lumber and panels to U.S. markets. These factors were partly offset by a lower applicable fuel surcharge rate; and decreased shipments of energy-related commodities including crude oil, frac sand and drilling pipe, lower volumes of semi-finished steel products and short-haul iron ore, reduced shipments of coal due to weaker North American and global demand, as well as lower U.S. grain exports via the Gulf of Mexico.

Fuel surcharge revenues decreased by $575 million in 2015, mainly due to lower applicable fuel surcharge rates and lower freight volumes, partly offset by the positive translation impact of the weaker Canadian dollar.

In 2015, revenue ton miles (RTMs), measuring the relative weight and distance of rail freight transported by the Company, declined by 3% relative to 2014.

Rail freight revenue per RTM, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 8% when compared to 2014, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by a significant increase in the average length of haul, particularly in the second half of the year, and a lower applicable fuel surcharge rate.

Petroleum and chemicals

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 2,442**	$ 2,354	4%	(6%)
RTMs *(millions)*	**51,103**	53,169	(4%)	(4%)
Revenue/RTM *(cents)*	**4.78**	4.43	8%	(2%)

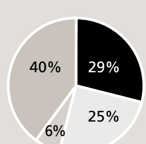
The petroleum and chemicals commodity group comprises a wide range of commodities, including chemicals and plastics, refined petroleum products, natural gas liquids, crude oil and sulfur. The primary markets for these commodities are within North America, and as such, the performance of this commodity group is closely correlated with the North American economy as well as oil and gas production. Most of the Company's petroleum and chemicals shipments originate in the Louisiana petrochemical corridor between New Orleans and Baton Rouge; in Western Canada, a key oil and gas development area and a major center for natural gas feedstock and world-scale petrochemicals and plastics; and in eastern Canadian regional plants.

For the year ended December 31, 2015, revenues for this commodity group increased by $88 million, or 4%, when compared to 2014. The increase was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases and higher shipments of natural gas liquids. These factors were partly offset by decreased shipments of crude oil and a lower applicable fuel surcharge rate.

Revenue per RTM increased by 8% in 2015, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

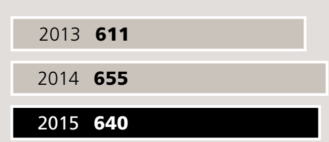
Percentage of 2015 revenues

40% Chemicals and plastics
29% Refined petroleum products
25% Crude and condensate
6% Sulfur



***Carloads** (thousands)*

Year ended December 31,



Metals and minerals

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 1,437**	$ 1,484	(3%)	(13%)
RTMs *(millions)*	**21,828**	24,686	(12%)	(12%)
Revenue/RTM *(cents)*	**6.58**	6.01	9%	(2%)

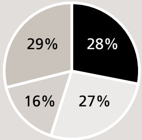
The metals and minerals commodity group consists primarily of materials related to oil and gas development, steel, iron ore, non-ferrous base metals and ores, construction materials and machinery and dimensional (large) loads. The Company provides unique rail access to base metals, iron ore and frac sand mining as well as aluminum and steel producing regions, which are among the most important in North America. This strong origin franchise, coupled with the Company's access to port facilities and the end markets for these commodities, has made CN a leader in the transportation of metals and minerals products. The key drivers for this market segment are oil and gas development, automotive production, and non-residential construction.

For the year ended December 31, 2015, revenues for this commodity group decreased by $47 million, or 3%, when compared to 2014. The decrease was mainly due to decreased shipments of energy-related commodities including frac sand and drilling pipe due to a reduction in oil and gas activities, and lower volumes of semi-finished steel products and short-haul iron ore; as well as a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Revenue per RTM increased by 9% in 2015, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a significant increase in the average length of haul and a lower applicable fuel surcharge rate.

Percentage of 2015 revenues

29% Metals
28% Energy materials
27% Minerals
16% Iron ore



Carloads *(thousands)*

Year ended December 31,

2013 **1,048**
2014 **1,063**
2015 **886**

Forest products

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 1,728**	$ 1,523	13%	2%
RTMs *(millions)*	**30,097**	29,070	4%	4%
Revenue/RTM *(cents)*	**5.74**	5.24	10%	(2%)

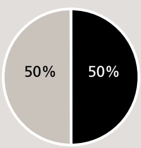
The forest products commodity group includes various types of lumber, panels, paper, wood pulp and other fibers such as logs, recycled paper, wood chips, and wood pellets. The Company has extensive rail access to the western and eastern Canadian fiber-producing regions, which are among the largest fiber source areas in North America. In the U.S., the Company is strategically located to serve both the Midwest and southern U.S. corridors with interline connections to other Class I railroads. The key drivers for the various commodities are: for lumber and panels, housing starts and renovation activities primarily in the U.S.; for fibers (mainly wood pulp), the consumption of paper, pulpboard and tissue in North American and offshore markets; and for newsprint, advertising lineage, non-print media and overall economic conditions, primarily in the U.S.

For the year ended December 31, 2015, revenues for this commodity group increased by $205 million, or 13%, when compared to 2014. The increase was mainly due to the positive translation impact of a weaker Canadian dollar; freight rate increases; and higher shipments of lumber and panels to U.S. markets, and increased offshore shipments of wood pulp. These factors were partly offset by a lower applicable fuel surcharge rate and decreased shipments of paper products.

Revenue per RTM increased by 10% in 2015, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

Percentage of 2015 revenues

50% Pulp and paper
50% Lumber and panels



Carloads *(thousands)*

Year ended December 31,

2013 **446**
2014 **433**
2015 **441**

Coal

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 612**	$ 740	(17%)	(25%)
RTMs *(millions)*	**15,956**	21,147	(25%)	(25%)
Revenue/RTM *(cents)*	**3.84**	3.50	10%	(1%)

The coal commodity group consists of thermal grades of bituminous coal, metallurgical coal and petroleum coke. Canadian thermal and metallurgical coal are largely exported via terminals on the west coast of Canada to offshore markets. In the U.S., thermal coal is transported from mines served in southern Illinois, or from western U.S. mines via interchange with other railroads, to major utilities in the Midwest and Southeast U.S., as well as offshore markets via terminals in the Gulf of Mexico.

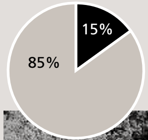
For the year ended December 31, 2015, revenues for this commodity group decreased by $128 million, or 17%, when compared to 2014. The decrease was mainly due to lower shipments of metallurgical and thermal coal through west coast ports, and decreased volumes of thermal coal to U.S. utilities, and a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Revenue per RTM increased by 10% in 2015, mainly due to a significant decrease in the average length of haul, the positive translation impact of a weaker Canadian dollar, and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

Percentage of 2015 revenues

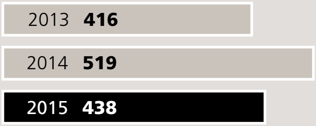
85% Coal

15% Petroleum coke



Carloads *(thousands)*

Year ended December 31,



Grain and fertilizers

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 2,071**	$ 1,986	4%	(3%)
RTMs *(millions)*	**50,001**	51,326	(3%)	(3%)
Revenue/RTM *(cents)*	**4.14**	3.87	7%	-

The grain and fertilizers commodity group depends primarily on crops grown and fertilizers processed in Western Canada and the U.S. Midwest. The grain segment consists of three primary segments: food grains (mainly wheat, oats and malting barley), feed grains and feed grain products (including feed barley, feed wheat, peas, corn, ethanol and dried distillers grains), and oilseeds and oilseed products (primarily canola seed, oil and meal, and soybeans). Production of grain varies considerably from year to year, affected primarily by weather conditions, seeded and harvested acreage, the mix of grains produced and crop yields. Grain exports are sensitive to the size and quality of the crop produced, international market conditions and foreign government policy. The majority of grain produced in Western Canada and moved by CN is exported via the ports of Vancouver, Prince Rupert and Thunder Bay. Certain of these rail movements are subject to government regulation and to a revenue cap, which effectively establishes a maximum revenue entitlement that railways can earn. In the U.S., grain grown in Illinois and Iowa is exported as well as transported to domestic processing facilities and feed markets. The Company also serves major producers of potash in Canada, as well as producers of ammonium nitrate, urea and other fertilizers across Canada and the U.S.

For the year ended December 31, 2015, revenues for this commodity group increased by $85 million, or 4%, when compared to 2014. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, as well as higher shipments of potash and lentils. These factors were partly offset by lower U.S. corn and soybeans exports via the Gulf of Mexico, lower volumes of corn to domestic processing facilities, and reduced export shipments of Canadian wheat and barley; as well as a lower applicable fuel surcharge rate.

Revenue per RTM increased by 7% in 2015, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate and an increase in the average length of haul.

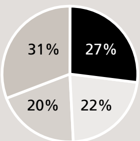
Percentage of 2015 revenues

31% Oilseeds

27% Food grains

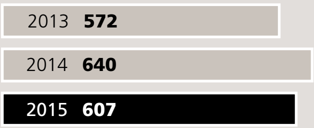
22% Feed grains

20% Fertilizers



Carloads *(thousands)*

Year ended December 31,



Intermodal

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 2,896**	$ 2,748	5%	-
RTMs *(millions)*	**52,144**	49,581	5%	5%
Revenue/RTM *(cents)*	**5.55**	5.54	-	(5%)

The intermodal commodity group includes rail and trucking services and is comprised of two segments: domestic and international. The domestic segment transports consumer products and manufactured goods, serving both retail and wholesale channels, within domestic Canada, domestic U.S., Mexico and transborder, while the international segment handles import and export container traffic, serving the major ports of Vancouver, Prince Rupert, Montreal, Halifax, New Orleans and Mobile. The domestic segment is driven by consumer markets, with growth generally tied to the economy. The international segment is driven by North American economic and trade conditions.

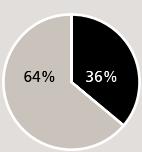
For the year ended December 31, 2015, revenues for this commodity group increased by $148 million, or 5%, when compared to 2014. The increase was primarily due to higher international shipments, mainly through the Port of Prince Rupert, the positive translation impact of a weaker Canadian dollar, and freight rate increases. These factors were partly offset by a lower applicable fuel surcharge rate.

Revenue per RTM remained flat in 2015, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate and an increase in the average length of haul.

Percentage of 2015 revenues

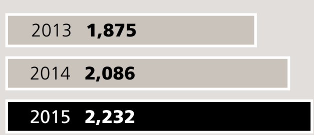
64% International

36% Domestic



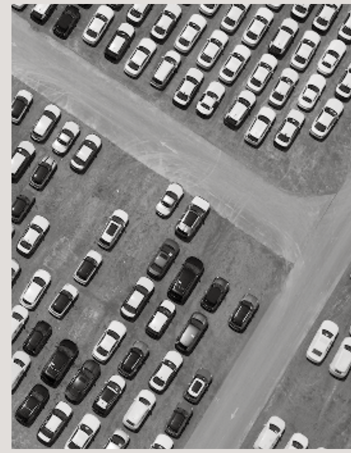
Carloads *(thousands)*

Year ended December 31,



Automotive

Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 719**	$ 620	16%	4%
RTMs *(millions)*	**3,581**	3,159	13%	13%
Revenue/RTM *(cents)*	**20.08**	19.63	2%	(9%)



The automotive commodity group moves both domestic finished vehicles and parts throughout North America, providing rail access to certain vehicle assembly plants in Canada, and Michigan and Mississippi in the U.S. The Company also serves vehicle distribution facilities in Canada and the U.S., as well as parts production facilities in Michigan and Ontario. The Company serves shippers of import finished vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads. The Company's automotive revenues are closely correlated to automotive production and sales in North America.

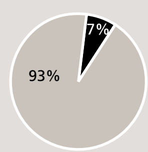
For the year ended December 31, 2015, revenues for this commodity group increased by $99 million, or 16%, when compared to 2014. The increase was mainly due to the positive translation impact of a weaker Canadian dollar; and higher volumes of domestic finished vehicle traffic in the first half, as a result of new business, and higher import volumes via the Port of Vancouver. These factors were partly offset by a lower applicable fuel surcharge rate.

Revenue per RTM increased by 2% in 2015, mainly due to the positive translation impact of a weaker Canadian dollar, partly offset by a significant increase in the average length of haul and a lower applicable fuel surcharge rate.

Percentage of 2015 revenues

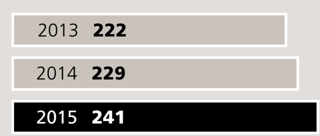
93% Finished vehicles

7% Auto parts



Carloads *(thousands)*

Year ended December 31,



Other revenues

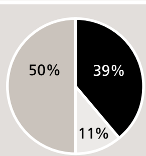
Year ended December 31,	2015	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 706**	$ 679	4%	(6%)

Percentage of 2015 revenues

50% Vessels and docks

39% Other non-rail services

11% Other revenues



Other revenues are largely derived from non-rail services that support CN's rail business including vessels and docks, warehousing and distribution, automotive logistic services, freight forwarding and transportation management; as well as other revenues including commuter train revenues.

For the year ended December 31, 2015, Other revenues increased by $27 million, or 4%, when compared to 2014, mainly due to the positive translation impact of a weaker Canadian dollar partly offset by lower revenues from vessels.

Operating expenses

Operating expenses for the year ended December 31, 2015 amounted to $7,345 million compared to $7,510 million in 2014. The decrease of $165 million, or 2%, in 2015 was mainly due to lower fuel expense and cost-management efforts, partly offset by the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses.

In millions	*Year ended December 31,*	**2015**	2014	% Change	% Change at constant currency	Percentage of revenues **2015**	Percentage of revenues 2014
Labor and fringe benefits		**$ 2,406**	$ 2,319	(4%)	2%	**19.1%**	19.1%
Purchased services and material		**1,729**	1,598	(8%)	(1%)	**13.7%**	13.2%
Fuel		**1,285**	1,846	30%	39%	**10.2%**	15.2%
Depreciation and amortization		**1,158**	1,050	(10%)	(4%)	**9.2%**	8.7%
Equipment rents		**373**	329	(13%)	-	**2.9%**	2.7%
Casualty and other		**394**	368	(7%)	3%	**3.1%**	3.0%
Total operating expenses		**$ 7,345**	$ 7,510	2%	9%	**58.2%**	61.9%

Labor and fringe benefits

Labor and fringe benefits expense includes wages, payroll taxes, and employee benefits such as incentive compensation, including stock-based compensation; health and welfare; and pension and other postretirement benefits. Certain incentive and stock-based compensation plans are based on financial and market performance targets and the related expense is recorded in relation to the attainment of such targets.

Labor and fringe benefits expense increased by $87 million, or 4%, in 2015 when compared to 2014. The increase was primarily a result of the negative translation impact of the weaker Canadian dollar, general wage increases and higher payroll taxes, as well as increased pension expense, partly offset by lower incentive-based compensation expense.

Purchased services and material

Purchased services and material expense primarily includes the cost of services purchased from outside contractors; materials used in the maintenance of the Company's track, facilities and equipment; transportation and lodging for train crew employees; utility costs; and the net costs of operating facilities jointly used by the Company and other railroads.

Purchased services and material expense increased by $131 million, or 8%, in 2015 when compared to 2014. The increase was mainly due to the negative translation impact of the weaker Canadian dollar as well as higher cost for repairs and maintenance and for materials.

Fuel

Fuel expense includes fuel consumed by assets, including locomotives, vessels, vehicles and other equipment as well as federal, provincial and state fuel taxes.

Fuel expense decreased by $561 million, or 30%, in 2015 when compared to 2014. The decrease was primarily due to lower fuel prices, partly offset by the negative translation impact of the weaker Canadian dollar.

Depreciation and amortization

Depreciation expense is affected by capital additions, railroad property retirements from disposal, sale and/or abandonment and other adjustments including asset impairments.

Depreciation and amortization expense increased by $108 million, or 10%, in 2015 when compared to 2014. The increase was mainly due to net capital additions and the negative translation impact of the weaker Canadian dollar, partly offset by the favorable impact of depreciation studies.

Equipment rents

Equipment rents expense includes rental expense for the use of freight cars owned by other railroads or private companies and for the short- or long-term lease of freight cars, locomotives and intermodal equipment, net of rental income from other railroads for the use of the Company's cars and locomotives.

Equipment rents expense increased by $44 million, or 13%, in 2015 when compared to 2014. The increase was primarily due to the negative translation impact of the weaker Canadian dollar and increased car hire expense, partly offset by higher income from the use of the Company's equipment by other railroads.

Casualty and other

Casualty and other expense includes expenses for personal injuries, environmental, freight and property damage, insurance, bad debt, operating taxes, and travel expenses.

Casualty and other expense increased by $26 million, or 7%, in 2015 when compared to 2014. The increase was mainly due to the negative translation impact of the weaker Canadian dollar.

Other income and expenses

Interest expense

In 2015, Interest expense was $439 million compared to $371 million in 2014. The increase was mainly due to the negative translation impact of the weaker Canadian dollar on US dollar-denominated interest expense and a higher level of debt.

Other income

In 2015, the Company recorded other income of $47 million compared to $107 million in 2014. Included in Other income for 2014 was a gain on disposal of the Deux-Montagnes of $80 million.

Income tax expense

The Company recorded income tax expense of $1,336 million for the year ended December 31, 2015, compared to $1,193 million in 2014. Included in the 2015 figure was a deferred income tax expense of $42 million resulting from the enactment of a higher provincial corporate income tax rate. Included in the 2014 figure was an income tax recovery of $18 million resulting from a change in estimate of the deferred income tax liability related to properties.

The effective tax rate was 27.4% in 2015 and 2014. Excluding the net deferred income tax expense of $42 million in 2015 and the net income tax recovery of $18 million in 2014, the effective tax rate for 2015 was 26.5% compared to 27.8% in 2014, partially due to a higher proportion of profit in lower tax rate jurisdictions.

2014 compared to 2013

In 2014, net income was $3,167 million, an increase of $555 million, or 21%, when compared to 2013, with diluted earnings per share rising 25% to $3.85. The $555 million increase was mainly due to an increase in Operating income, net of related income taxes.

Operating income for the year ended December 31, 2014 increased by $751 million, or 19%, to $4,624 million. The operating ratio, defined as operating expenses as a percentage of revenues, was 61.9% in 2014, compared to 63.4% in 2013, a 1.5-point improvement.

Revenues for the year ended December 31, 2014 increased by $1,559 million or 15%, to $12,134 million, mainly attributable to:

- higher freight volumes due to a record 2013/2014 Canadian grain crop, strong energy markets, particularly crude oil and frac sand, as well as new intermodal and automotive business;
- the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and
- freight rate increases.

Operating expenses for the year ended December 31, 2014 increased by $808 million, or 12%, to $7,510 million, mainly due to:

- the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses;
- increased purchased services and material expense;
- higher fuel costs; and
- increased labor and fringe benefits expense.

Revenues

In millions, unless otherwise indicated *Year ended December 31,*	2014	2013	% Change	% Change at constant currency
Rail freight revenues	$ 11,455	$ 9,951	15%	11%
Other revenues	679	624	9%	4%
Total revenues	$ 12,134	$ 10,575	15%	10%
Rail freight revenues				
Petroleum and chemicals	$ 2,354	$ 1,952	21%	15%
Metals and minerals	1,484	1,240	20%	14%
Forest products	1,523	1,424	7%	2%
Coal	740	713	4%	-
Grain and fertilizers	1,986	1,638	21%	17%
Intermodal	2,748	2,429	13%	11%
Automotive	620	555	12%	6%
Total rail freight revenues	$ 11,455	$ 9,951	15%	11%
Revenue ton miles (RTMs) *(millions)*	232,138	210,133	10%	10%
Rail freight revenue/RTM *(cents)*	4.93	4.74	4%	-
Carloads *(thousands)*	5,625	5,190	8%	8%
Rail freight revenue/carload *(dollars)*	2,036	1,917	6%	2%

In order to better represent rail freight and related revenues within the commodity groups and maintain non-rail services that support CN's rail business within Other revenues, certain other revenues were reclassified to the commodity groups within rail freight revenues. Revenues earned from trucking intermodal goods were reclassified from Other revenues to the Intermodal commodity group and services that relate to the movement of rail freight were reclassified from Other revenues to the related commodity groups. The 2013 comparative figures have been reclassified in order to be consistent with the 2014 presentation as discussed herein. This change has no impact on the Company's previously reported results of operations as Total revenues remain unchanged.

Revenues for the year ended December 31, 2014 totaled $12,134 million compared to $10,575 million in 2013. The increase of $1,559 million, or 15%, was mainly attributable to higher freight volumes due to a record 2013/2014 Canadian grain crop, strong energy markets, particularly crude oil and frac sand, new intermodal and automotive business; the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and freight rate increases.

Fuel surcharge revenues increased by $72 million in 2014, due to higher freight volumes partly offset by lower fuel surcharge rates.

In 2014, revenue ton miles (RTM), measuring the relative weight and distance of rail freight transported by the Company, increased by 10% relative to 2013.

Rail freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 4% when compared to 2013, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by an increase in the average length of haul.

Petroleum and chemicals

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 2,354	$ 1,952	21%	15%
RTMs *(millions)*	53,169	44,634	19%	19%
Revenue/RTM *(cents)*	4.43	4.37	1%	(3%)

For the year ended December 31, 2014, revenues for this commodity group increased by $402 million, or 21%, when compared to 2013. The increase was mainly due to higher crude oil and natural gas liquid shipments, the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher fuel surcharge revenues due to higher freight volumes partly offset by a lower fuel surcharge rate. These factors were partly offset by lower volumes of chlorine and sulfur.

Revenue per revenue ton mile increased by 1% in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a significant increase in the average length of haul.

Metals and minerals

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,484	$ 1,240	20%	14%
RTMs *(millions)*	24,686	21,342	16%	16%
Revenue/RTM *(cents)*	6.01	5.81	3%	(2%)

For the year ended December 31, 2014, revenues for this commodity group increased by $244 million, or 20%, when compared to 2013. The increase was mainly due to higher volumes of frac sand, increased shipments of semi-finished steel products, the positive translation impact of a weaker Canadian dollar, and freight rate increases.

Revenue per revenue ton mile increased by 3% in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a significant increase in the average length of haul.

Forest products

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,523	$ 1,424	7%	2%
RTMs *(millions)*	29,070	29,630	(2%)	(2%)
Revenue/RTM *(cents)*	5.24	4.81	9%	4%

For the year ended December 31, 2014, revenues for this commodity group increased by $99 million, or 7%, when compared to 2013. The increase was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes of lumber and panels to U.S. markets. These factors were partly offset by decreased shipments of lumber and wood pulp to offshore markets and lower fuel surcharge revenues due to lower freight volumes.

Revenue per revenue ton mile increased by 9% in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by an increase in the average length of haul.

Coal

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 740	$ 713	4%	-
RTMs *(millions)*	21,147	22,315	(5%)	(5%)
Revenue/RTM *(cents)*	3.50	3.20	9%	5%

For the year ended December 31, 2014, revenues for this commodity group increased by $27 million, or 4%, when compared to 2013. The increase was mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by lower volumes. Decreased shipments of metallurgical coal, thermal coal, and petroleum coke through west coast ports were partly offset by increased shipments of thermal coal to U.S. utilities and for export through the Gulf.

Revenue per revenue ton mile increased by 9% in 2014, mainly due to freight rate increases, the positive translation impact of a weaker Canadian dollar, and a significant decrease in the average length of haul.

Grain and fertilizers

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,986	$ 1,638	21%	17%
RTMs *(millions)*	51,326	43,180	19%	19%
Revenue/RTM *(cents)*	3.87	3.79	2%	(1%)

For the year ended December 31, 2014, revenues for this commodity group increased by $348 million, or 21%, when compared to 2013. The increase was mainly due to higher volumes of Canadian wheat and canola due to a record 2013/2014 Canadian grain crop, as well as increased shipments of corn and soybeans for export due to higher crop yields in the U.S.; the positive translation impact of a weaker Canadian dollar; and freight rate increases. These factors were partly offset by lower volumes of fertilizers.

Revenue per revenue ton mile increased by 2% in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a significant increase in the average length of haul.

Intermodal

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 2,748	$ 2,429	13%	11%
RTMs *(millions)*	49,581	46,291	7%	7%
Revenue/RTM *(cents)*	5.54	5.25	6%	3%

For the year ended December 31, 2014, revenues for this commodity group increased by $319 million, or 13%, when compared to 2013. The increase was mainly due to new business and higher shipments through the ports of Vancouver and Montreal, and increased volumes through the Port of Prince Rupert; the positive translation impact of a weaker Canadian dollar; higher fuel surcharge revenues due to increased freight volumes; and freight rate increases. These increases were partly offset by reduced domestic volumes serving wholesale channels.

Revenue per revenue ton mile increased by 6% in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases.

Automotive

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 620	$ 555	12%	6%
RTMs *(millions)*	3,159	2,741	15%	15%
Revenue/RTM *(cents)*	19.63	20.25	(3%)	(8%)

For the year ended December 31, 2014, revenues for this commodity group increased by $65 million, or 12%, when compared to 2013. The increase was mainly due to higher volumes of domestic finished vehicle traffic as a result of new business and the positive translation impact of a weaker Canadian dollar.

Revenue per revenue ton mile decreased by 3% in 2014, mainly due to a significant increase in the average length of haul, partly offset by the positive translation impact of a weaker Canadian dollar.

Other revenues

Year ended December 31,	2014	2013	% Change	% Change at constant currency
Revenues *(millions)*	$ 679	$ 624	9%	4%

For the year ended December 31, 2014, Other revenues increased by $55 million, or 9%, when compared to 2013, mainly due to the positive translation impact of a weaker Canadian dollar, higher revenues from vessels and docks, as well as international freight forwarding.

Operating expenses

Operating expenses for the year ended December 31, 2014 amounted to $7,510 million compared to $6,702 million in 2013. The increase of $808 million, or 12%, in 2014 was mainly due to the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses, increased purchased services and material expense, higher fuel costs, as well as increased labor and fringe benefits expense.

In millions *Year ended December 31,*	2014	2013	% Change	% Change at constant currency	Percentage of revenues 2014	Percentage of revenues 2013
Labor and fringe benefits	$ 2,319	$ 2,182	(6%)	(4%)	19.1%	20.6%
Purchased services and material	1,598	1,351	(18%)	(15%)	13.2%	12.8%
Fuel	1,846	1,619	(14%)	(7%)	15.2%	15.3%
Depreciation and amortization	1,050	980	(7%)	(5%)	8.7%	9.3%
Equipment rents	329	275	(20%)	(13%)	2.7%	2.6%
Casualty and other	368	295	(25%)	(20%)	3.0%	2.8%
Total operating expenses	$ 7,510	$ 6,702	(12%)	(8%)	61.9%	63.4%

Labor and fringe benefits

Labor and fringe benefits expense increased by $137 million, or 6%, in 2014 when compared to 2013. The increase was primarily a result of higher headcount to accommodate volume growth, general wage increases, the negative translation impact of the weaker Canadian dollar, as well as higher stock-based compensation expense. The increase was partly offset by a decrease in pension expense and the impact of improved labor productivity.

Purchased services and material

Purchased services and material expense increased by $247 million, or 18%, in 2014 when compared to 2013. The increase was mainly due to weather-related conditions in the first quarter of 2014 that impacted materials, utilities, and maintenance costs for rolling stock; the negative translation impact of the weaker Canadian dollar; as well as increased freight volumes that resulted in higher costs for materials and third-party non-rail transportation carriers.

Fuel

Fuel expense increased by $227 million, or 14%, in 2014 when compared to 2013. The increase was due to higher freight volumes and the negative translation impact of the weaker Canadian dollar, partly offset by increased fuel productivity and a lower US dollar average price for fuel.

Depreciation and amortization

Depreciation and amortization expense increased by $70 million, or 7%, in 2014 when compared to 2013. The increase was mainly due to net capital additions, the negative translation impact of the weaker Canadian dollar, as well as the change in composite depreciation rates resulting from the 2013 depreciation study on certain U.S. track and roadway properties, partly offset by some asset impairments in 2013.

Equipment rents

Equipment rents expense increased by $54 million, or 20%, in 2014 when compared to 2013. The increase was primarily due to increased car hire expense due to higher volumes, the negative translation impact of the weaker Canadian dollar and higher costs for the use of equipment from other railroads, partly offset by increased car hire income.

Casualty and other

Casualty and other expense increased by $73 million, or 25%, in 2014 when compared to 2013. The increase was mainly due to higher accident-related costs, increased property taxes and the negative impact of the weaker Canadian dollar, partly offset by lower workers' compensation expenses.

Other income and expenses

Interest expense

In 2014, interest expense was $371 million compared to $357 million in 2013. The increase was mainly due to the negative translation impact of the weaker Canadian dollar on US dollar-denominated interest expense partly offset by lower interest expense on capital lease obligations.

Other income

In 2014, the Company recorded other income of $107 million compared to $73 million in 2013. Included in Other income for 2014 was a gain on disposal of the Deux-Montagnes of $80 million. Included in Other income for 2013 was a gain on the exchange of easements of $29 million and a gain on disposal of the Lakeshore West of $40 million.

Income tax expense

The Company recorded income tax expense of $1,193 million for the year ended December 31, 2014, compared to $977 million in 2013.

Included in the 2014 figure was an income tax recovery of $18 million resulting from a change in estimate of the deferred income tax liability related to properties.

Included in the 2013 figures was a net income tax recovery of $7 million consisting of a $24 million income tax expense resulting from the enactment of higher provincial corporate income tax rates; a $15 million income tax recovery resulting from the recognition of U.S. state income tax losses; and a $16 million income tax recovery resulting from a revision of the apportionment of U.S. state income taxes.

The effective tax rate for 2014 was 27.4% compared to 27.2% in 2013. Excluding the net income tax recoveries of $18 million and $7 million in 2014 and 2013, respectively, the effective tax rate for 2014 was 27.8% compared to 27.4% in 2013.

Summary of quarterly financial data

	2015 Quarters				2014 Quarters			
In millions, except per share data	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
Revenues	**$ 3,166**	**$ 3,222**	**$ 3,125**	**$ 3,098**	$ 3,207	$ 3,118	$ 3,116	$ 2,693
Operating income	**$ 1,354**	**$ 1,487**	**$ 1,362**	**$ 1,063**	$ 1,260	$ 1,286	$ 1,258	$ 820
Net income	**$ 941**	**$ 1,007**	**$ 886**	**$ 704**	$ 844	$ 853	$ 847	$ 623
Basic earnings per share	**$ 1.19**	**$ 1.26**	**$ 1.10**	**$ 0.87**	$ 1.04	$ 1.04	$ 1.03	$ 0.75
Diluted earnings per share	**$ 1.18**	**$ 1.26**	**$ 1.10**	**$ 0.86**	$ 1.03	$ 1.04	$ 1.03	$ 0.75
Dividends per share	**$ 0.3125**	**$ 0.3125**	**$ 0.3125**	**$ 0.3125**	$ 0.2500	$ 0.2500	$ 0.2500	$ 0.2500

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace (see the section entitled *Business risks* of this MD&A). Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. Fluctuations in the Canadian dollar relative to the US dollar have also affected the conversion of the Company's US dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

The Company's quarterly results include items that impacted the quarter-over-quarter comparability of the results of operations as presented below:

	2015 Quarters				2014 Quarters			
In millions, except per share data	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
Income tax expense (1)	**$ -**	**$ -**	**$ (42)**	**$ -**	$ -	$ -	$ -	$ -
After-tax gain on disposal of property (2)	**-**	**-**	**-**	**-**	-	-	-	72
Impact on net income	**$ -**	**$ -**	**$ (42)**	**$ -**	$ -	$ -	$ -	$ 72
Impact on basic earnings per share	**$ -**	**$ -**	**$ (0.05)**	**$ -**	$ -	$ -	$ -	$ 0.09
Impact on diluted earnings per share	**$ -**	**$ -**	**$ (0.05)**	**$ -**	$ -	$ -	$ -	$ 0.09

(1) *Income tax expense resulted from the enactment of a higher provincial corporate income tax rate.*

(2) *In the first quarter of 2014, the Company sold the Deux-Montagnes for $97 million. A gain on disposal of $80 million ($72 million after-tax) was recognized in Other income.*

Summary of fourth quarter 2015

Fourth quarter 2015 net income was $941 million, an increase of $97 million, or 11%, when compared to the same period in 2014, with diluted earnings per share rising 15% to $1.18.

Operating income for the quarter ended December 31, 2015 increased by $94 million, or 7%, to $1,354 million, when compared to the same period in 2014. The operating ratio was 57.2% in the fourth quarter of 2015 compared to 60.7% in the fourth quarter of 2014, a 3.5-point improvement.

Revenues for the fourth quarter of 2015 decreased by $41 million, or 1%, to $3,166 million, when compared to the same period in 2014. The decrease was mainly attributable to reduced shipments of energy-related commodities due to a reduction in oil and gas activities, lower volumes of semi-finished steel products and short-haul iron ore, decreased shipments of coal due to weaker North American and global demand, and lower U.S. grain exports via the Gulf of Mexico; as well as a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues, freight rate increases, and solid overseas intermodal demand. Fuel surcharge revenues decreased by $190 million in the fourth quarter of 2015, due to lower fuel surcharge rates and lower freight volumes, partly offset by the positive translation impact of the weaker Canadian dollar.

Operating expenses for the fourth quarter of 2015 decreased by $135 million, or 7%, to $1,812 million, when compared to the same period in 2014. The decrease was primarily due to lower fuel expense, lower accident-related costs, and cost-management efforts, partly offset by the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses.

Financial position

The following tables provide an analysis of the Company's balance sheet as at December 31, 2015 as compared to 2014. Assets and liabilities denominated in US dollars have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. As at December 31, 2015 and 2014, the foreign exchange rates were $1.3840 and $1.1601 per US$1.00, respectively. As a result of the retrospective adoption of new accounting standards in the fourth quarter of 2015, certain 2014 balances have been adjusted. Debt issuance costs have been reclassified from assets to Long-term debt and the current deferred income tax asset was reclassified as noncurrent and netted against the related noncurrent deferred income tax liability. See the section of this MD&A entitled *Recent accounting pronouncements* for additional information.

In millions *December 31,*	**2015**	2014	Foreign exchange impact	Variance excluding foreign exchange	Explanation of variance, other than foreign exchange impact
Total assets	**$ 36,402**	$ 31,687	$ 2,761	$ 1,954	
Variance mainly due to:					
Accounts receivable	**878**	928	115	(165)	Decrease due to the impact of an improved collection cycle.
Properties	**32,624**	28,514	2,501	1,609	Increase primarily due to gross property additions of $2,706 million, partly offset by depreciation of $1,158 million.
Pension asset	**1,305**	882	-	423	Increase primarily due to the excess of the actual return on plan assets over current service cost and interest cost as well as the increase in the year-end discount rate from 3.87% in 2014 to 3.99% in 2015.
Total liabilities	**$ 21,452**	$ 18,217	$ 2,506	$ 729	
Variance mainly due to:					
Deferred income taxes	**8,105**	6,834	780	491	Increase due to deferred income tax expense of $600 million recorded in Net income that was partly offset by a deferred income tax recovery of $105 million recorded in Other comprehensive income (loss).
Pension and other postretirement benefits	**720**	650	35	35	Increase primarily due to actuarial losses partly offset by the increase in the year-end discount rate from 3.87% in 2014 to 3.99% in 2015.

In millions *December 31,*	**2015**	2014	Variance	Explanation of variance
Total shareholders' equity	**$ 14,950**	$ 13,470	$ 1,480	
Variance mainly due to:				
Accumulated other comprehensive loss	**(1,767)**	(2,427)	660	Decrease due to after-tax amounts of $230 million to recognize the funded status of the Company's defined benefit pension and other postretirement benefit plans and $430 million for foreign exchange gains and other.
Retained earnings	**12,637**	11,740	897	Increase due to current year net income of $3,538 million, partly offset by share repurchases of $1,642 million and dividends paid of $996 million.

Liquidity and capital resources

The Company's principal source of liquidity is cash generated from operations, which is supplemented by borrowings in the money markets and capital markets. To meet its short-term liquidity needs, the Company has access to various financing sources, including a committed revolving credit facility, a commercial paper program, and an accounts receivable securitization program. In addition to these sources, the Company can issue debt securities to meet its longer-term liquidity needs. The Company's access to long-term funds in the debt capital markets depends on its credit rating and market conditions. The Company believes that it continues to have access to the long-term debt capital markets. If the Company were unable to borrow funds at acceptable rates in the long-term debt capital markets, the Company could borrow under its revolving credit facility, draw down on its accounts receivable securitization program, raise cash by disposing of surplus properties or otherwise monetizing assets, reduce discretionary spending or take a combination of these measures to assure that it has adequate funding for its business. The strong focus on cash generation from all sources gives the Company increased flexibility in terms of meeting its financing requirements.

The Company's primary uses of funds are for working capital requirements, including income tax installments, pension contributions, and contractual obligations; capital expenditures relating to track infrastructure and other; acquisitions; dividend payouts; and the repurchase of shares through share repurchase programs. The Company sets priorities on its uses of available funds based on short-term operational requirements, expenditures to continue to operate a safe railway and pursue strategic initiatives, while also considering its long-term contractual obligations and returning value to its shareholders; and as part of its financing strategy, the Company regularly reviews its optimal capital structure, cost of capital, and the need for additional debt financing.

The Company has a working capital deficit, which is considered common in the rail industry because it is capital-intensive, and not an indication of a lack of liquidity. The Company maintains adequate resources to meet daily cash requirements, and has sufficient financial capacity to manage its day-to-day cash requirements and current obligations. As at December 31, 2015 and December 31, 2014, the Company had Cash and cash equivalents of $153 million and $52 million, respectively; Restricted cash and cash equivalents of $523 million and $463 million, respectively; and a working capital deficit of $845 million and $208 million, respectively. The working capital deficit increased by $637 million in 2015 primarily as a result of an increase in Current portion of long-term debt mainly due to the issuance of commercial paper; partly offset by increased Cash and cash equivalents and decreased Accounts payable and other. The cash and cash equivalents pledged as collateral for a minimum term of one month pursuant to the Company's bilateral letter of credit facilities are recorded as Restricted cash and cash equivalents. There are currently no specific requirements relating to working capital other than in the normal course of business as discussed herein.

The Company's U.S. and other foreign subsidiaries hold cash to meet their respective operational requirements. The Company can decide to repatriate funds associated with either undistributed earnings or the liquidation of its foreign operations, including its U.S. and other foreign subsidiaries. Such repatriation of funds would not cause significant tax implications to the Company under the tax treaties currently in effect between Canada and the U.S. and other foreign tax jurisdictions. Therefore, the impact on liquidity resulting from the repatriation of funds held outside Canada would not be significant as the Company expects to continuously invest in these foreign jurisdictions.

The Company is not aware of any trends or expected fluctuations in its liquidity that would impact its ongoing operations or financial condition as at December 31, 2015.

Available financing sources

Shelf prospectus and registration statement

On January 5, 2016, the Company filed a new shelf prospectus with the Canadian securities regulators and a registration statement with the SEC, pursuant to which CN may issue up to $6.0 billion of debt securities in the Canadian and U.S. markets over the next 25 months.

During 2015, the Company issued $850 million of debt under its previous shelf prospectus and registration statement, which expired in January 2016. As at December 31, 2015, the Company had issued $1.1 billion and US$600 million of debt under this shelf prospectus and registration statement, which provided for the issuance by CN of up to $3.0 billion of debt securities in the Canadian and U.S. capital markets.

Access to capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Revolving credit facility

The Company's revolving credit facility agreement provides access to $800 million of debt, with an accordion feature providing for an additional $500 million subject to the consent of individual lenders. On March 12, 2015, the Company extended the term of its agreement by one year to May 5, 2020. The credit facility is available for working capital and general corporate purposes, including backstopping the Company's commercial paper programs.

As at December 31, 2015 and December 31, 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the years ended December 31, 2015 and 2014.

Commercial paper

The Company has a commercial paper program in Canada and a new commercial paper program was established in the U.S. during the second quarter of 2015. Both programs are backstopped by the Company's revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent, on a combined basis. The program provides a flexible financing alternative for the Company, and is subject to market rates in effect at the time of financing. Access to commercial paper is dependent on market conditions. If the Company were to lose access to its commercial paper program for an extended period of time, the Company could rely on its $800 million revolving credit facility to meet its short-term liquidity needs.

As at December 31, 2015, the Company had total commercial paper borrowings of US$331 million ($458 million) (nil as at December 31, 2014) presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Accounts receivable securitization program

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. On June 18, 2015, the Company extended the term of its agreement by one year to February 1, 2018. The trusts are multi-seller trusts and the Company is not the primary beneficiary. Funding for the acquisition of these assets is customarily through the issuance of asset-backed commercial paper notes by the unrelated trusts.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold. The average servicing period is approximately one month and is renewed at market rates in effect. Subject to customary indemnifications, each trust's recourse is limited to the accounts receivable transferred.

The Company is subject to customary credit rating requirements, which if not met, could result in termination of the program. The necessary credit rating requirements have been met as of the date of this MD&A. The Company is also subject to customary reporting requirements for which failure to perform could also result in termination of the program. The Company monitors the reporting requirements and is currently not aware of any trends, events or conditions that could cause such termination.

The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use. In the event the program is terminated before its scheduled maturity, the Company expects to meet its future payment obligations through its various sources of financing including its revolving credit facility and commercial paper program, and/or access to capital markets.

As at December 31, 2015, the Company had no proceeds ($50 million, which was secured by, and limited to, $56 million of accounts receivable as at December 31, 2014) received under the accounts receivable securitization program presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Bilateral letter of credit facilities

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 12, 2015, the Company extended the expiry date of its agreements by one year to April 28, 2018. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued.

As at December 31, 2015, the Company had letters of credit drawn of $551 million ($487 million as at December 31, 2014) from a total committed amount of $575 million ($511 million as at December 31, 2014) by the various banks. As at December 31, 2015, cash and cash equivalents of $523 million ($463 million as at December 31, 2014) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Additional information relating to these financing sources is provided in *Note 10 – Long-term debt* to the Company's 2015 Annual Consolidated Financial Statements.

Credit ratings

The Company's ability to access funding in the debt capital markets and the cost and amount of funding available depends in part on its credit ratings. Rating downgrades could limit the Company's access to the capital markets, or increase its borrowing costs. The Company's long-term debt rating was upgraded from A (low) to A by Dominion Bond Rating Service in 2015.

The following table provides the credit ratings that CN has received from credit rating agencies as of the date of this MD&A:

	Long-term debt rating	Commercial paper rating
Dominion Bond Rating Service	A	R-1 (low)
Moody's Investors Service	A2	P-1
Standard & Poor's	A	A-1

These credit ratings are not recommendations to purchase, hold, or sell the securities referred to above. Ratings may be revised or withdrawn at any time by the credit rating agencies. Each credit rating should be evaluated independently of any other credit rating.

Cash flows

In millions *Year ended December 31,*	**2015**	2014	Variance
Net cash provided by operating activities	**$ 5,140**	$ 4,381	$ 759
Net cash used in investing activities	**(2,827)**	(2,176)	(651)
Net cash used in financing activities	**(2,223)**	(2,370)	147
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**11**	3	8
Net increase (decrease) in cash and cash equivalents	**101**	(162)	263
Cash and cash equivalents, beginning of year	**52**	214	(162)
Cash and cash equivalents, end of year	**$ 153**	$ 52	$ 101

Operating activities

Net cash provided by operating activities increased by $759 million in 2015, mainly due to higher operating income and improved collections.

Pension contributions

The Company's contributions to its various defined benefit pension plans are made in accordance with the applicable legislation in Canada and the U.S. and such contributions follow minimum and maximum thresholds as determined by actuarial valuations. Pension contributions for the year ended December 31, 2015 and 2014 of $126 million and $127 million, respectively, primarily represent contributions to the CN Pension Plan, for the current service cost as determined under the Company's current actuarial valuations for funding purposes. The Company expects to make total cash contributions of approximately $115 million for all pension plans in 2016.

See the section of this MD&A entitled *Critical accounting estimates – Pensions and other postretirement benefits* for additional information pertaining to the funding of the Company's pension plans. Additional information relating to the pension plans is provided in *Note 12 – Pensions and other postretirement benefits* to the Company's 2015 Annual Consolidated Financial Statements.

Income tax payments

The Company is required to make scheduled installment payments as prescribed by the tax authorities. In Canada, the Company's domestic jurisdiction, tax installments in a given year are generally based on the prior year's taxable income whereas in the U.S., the Company's predominant foreign jurisdiction, they are based on forecasted taxable income of the current year.

In 2015, net income tax payments were $725 million ($722 million in 2014). For the 2016 fiscal year, the Company's net income tax payments are expected to be approximately $900 million. In 2016, U.S. tax payments will reflect the allowable 50% accelerated depreciation and the Railroad Track Maintenance Credit as extended by the Protecting Americans from Tax Hikes Act of 2015.

The Company expects cash from operations and its other sources of financing to be sufficient to meet its funding obligations.

Investing activities

Net cash used in investing activities increased by $651 million in 2015, mainly as a result of higher property additions.

Property additions

In millions *Year ended December 31,*	**2015**	2014
Track and roadway [(1)]	**$ 1,855**	$ 1,604
Rolling stock	**480**	325
Buildings	**71**	104
Information technology	**144**	144
Other	**156**	120
Property additions	**$ 2,706**	$ 2,297

(1) In both 2015 and 2014 approximately 90% of the Track and roadway property additions were incurred to renew the basic infrastructure. Costs relating to normal repairs and maintenance of Track and roadway properties are expensed as incurred, and amounted to approximately 12% of the Company's total operating expenses in both 2015 and 2014.

Capital expenditure program

For 2016, the Company expects to invest approximately $2.9 billion in its capital program, which will be financed with cash generated from operations, as outlined below:

- $1.5 billion on track infrastructure to continue operating a safe railway and improve the productivity and fluidity of the network; including the replacement of rail, ties, and other track materials, bridge improvements, as well as various branch line upgrades;
- $0.6 billion on equipment capital expenditures, allowing the Company to tap growth opportunities and improve the quality of the fleet; and in order to handle expected traffic increase and improve operational efficiency, CN expects to take delivery of 90 new high-horsepower locomotives;
- $0.4 billion on initiatives to drive productivity, including information technology to improve service and operating efficiency; and
- $0.4 billion associated with the U.S. federal government legislative PTC implementation.

Disposal of property

There were no significant disposals of property in 2015. In 2014, cash inflows included proceeds of $76 million from the disposal of the Guelph and $97 million from the disposal of the Deux-Montagnes. Additional information relating to these disposals is provided in *Note 3 – Other income* to the Company's 2015 Annual Consolidated Financial Statements.

Financing activities

Net cash used in financing activities decreased by $147 million in 2015, driven by higher share repurchases and dividend payments, which were more than offset by a higher net issuance of debt, including commercial paper.

Debt financing activities

Debt financing activities in 2015 included the following:

- On November 6, 2015, repayment of US$350 million ($461 million) Floating Rate Notes due 2015 upon maturity;
- On September 22, 2015, issuance of $350 million 2.80% Notes due 2025, $400 million 3.95% Notes due 2045 and $100 million 4.00% Notes due 2065 in the Canadian capital markets, which resulted in total net proceeds of $841 million; and
- Net issuance of commercial paper of $451 million.

Debt financing activities in 2014 included the following:

- On January 15, 2014, repayment of US$325 million ($356 million) 4.95% Notes due 2014 upon maturity;
- On February 18, 2014, issuance of $250 million 2.75% Notes due 2021 in the Canadian capital markets, which resulted in net proceeds of $247 million;
- On November 14, 2014, issuance of US$250 million ($284 million) Floating Rate Notes due 2017, and US$350 million ($398 million) 2.95% Notes due 2024, in the U.S. capital markets, which resulted in total net proceeds of US$593 million ($675 million); and
- Net repayment of commercial paper of $277 million.

Cash obtained from the issuance of debt in 2015 and 2014 was used for general corporate purposes, including the redemption and refinancing of outstanding indebtedness and share repurchases. Additional information relating to the Company's outstanding debt securities is provided in *Note 10 – Long-term debt* to the Company's 2015 Annual Consolidated Financial Statements.

Share repurchase programs

The Company may repurchase shares pursuant to a normal course issuer bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 33.0 million common shares between October 30, 2015 and October 29, 2016.

Previous share repurchase programs allowed for the repurchase of up to 28.0 million common shares between October 24, 2014 and October 23, 2015, and up to 30.0 million common shares between October 29, 2013 and October 23, 2014 pursuant to the NCIBs.

The following table provides the information related to the share repurchase programs for the years ended December 31, 2015, 2014 and 2013:

In millions, except per share data *Year ended December 31,*	**2015**	2014	2013	**Total program**
October 2015 - October 2016 program				
Number of common shares (1)	**5.8**	N/A	N/A	5.8
Weighted-average price per share	**$ 70.44**	N/A	N/A	$ 70.44
Amount of repurchase	**$ 410**	N/A	N/A	$ 410
October 2014 - October 2015 program				
Number of common shares (1)	**17.5**	5.6	N/A	23.1
Weighted-average price per share (2)	**$ 76.79**	$ 73.29	N/A	$ 75.94
Amount of repurchase	**$ 1,340**	$ 410	N/A	$ 1,750
October 2013 - October 2014 program				
Number of common shares (1)	**N/A**	16.8	5.5	22.3
Weighted-average price per share (2)	**N/A**	$ 65.40	$ 55.25	$ 62.88
Amount of repurchase	**N/A**	$ 1,095	$ 305	$ 1,400
Total for the year				
Number of common shares (1)	**23.3**	22.4	27.6 (4)	
Weighted-average price per share (2)	**$ 75.20**	$ 67.38	$ 50.65 (4)	
Amount of repurchase (3)	**$ 1,750**	$ 1,505	$ 1,400 (4)	

(1) Includes common shares repurchased in the first, third and fourth quarters of 2015, and the first and fourth quarters of 2014 and 2013 pursuant to private agreements between the Company and arm's-length third-party sellers.

(2) Includes brokerage fees.

(3) The 2015 common share repurchases include settlements in the subsequent period.

(4) Includes 2013 repurchases from the October 2012 - October 2013 program, which consisted of 22.1 million common shares, a weighted-average price per share of $49.51 and an amount of repurchase of $1,095 million.

Share purchases by Share Trusts

In 2014, the Company established Employee Benefit Plan Trusts ("Share Trusts") to purchase common shares on the open market, which will be used to deliver common shares under the Share Units Plan. See *Note 14 - Stock-based compensation* to the Company's 2015 Annual Consolidated Financial Statements for additional information on the Share Units Plan. For the year ended December 31, 2015, the Share Trusts purchased 1.4 million common shares for $100 million at a weighted-average price per share of $73.31, including brokerage fees. Additional information relating to the share purchases by Share Trusts is provided in *Note 13 – Share capital* to the Company's 2015 Annual Consolidated Financial Statements.

Dividends paid

During 2015, the Company paid quarterly dividends of $0.3125 per share amounting to $996 million, compared to $818 million, at the rate of $0.2500 per share, in 2014. For 2016, the Company's Board of Directors approved an increase of 20% to the quarterly dividend to common shareholders, from $0.3125 per share in 2015 to $0.3750 per share in 2016.

Contractual obligations

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations for the following items as at December 31, 2015:

In millions	**Total**	2016	2017	2018	2019	2020	2021 & thereafter
Debt obligations (1)	**$ 9,905**	$ 1,219	$ 684	$ 720	$ 755	$ -	$ 6,527
Interest on debt obligations (2)	**6,975**	453	437	402	350	328	5,005
Capital lease obligations (3)	**640**	245	186	17	17	23	152
Operating lease obligations (4)	**742**	169	138	113	82	53	187
Purchase obligations (5)	**1,475**	1,059	244	39	34	30	69
Other long-term liabilities (6)	**789**	60	64	45	40	36	544
Total contractual obligations	**$ 20,526**	**$ 3,205**	**$ 1,753**	**$ 1,336**	**$ 1,278**	**$ 470**	**$ 12,484**

(1) Presented net of unamortized discounts and debt issuance costs and excludes capital lease obligations of $522 million which are included in Capital lease obligations.

(2) Interest payments on the floating rate notes are calculated based on the three-month London Interbank Offered Rate effective as at December 31, 2015.

(3) Includes $522 million of minimum lease payments and $118 million of imputed interest at rates ranging from 0.7% to 7.3%.

(4) Includes minimum rental payments for operating leases having initial non-cancelable lease terms of one year or more. The Company also has operating lease agreements for its automotive fleet with one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately $20 million and generally extend over five years.

(5) Includes commitments for railroad ties, rail, freight cars, locomotives and other equipment and services, and outstanding information technology service contracts and licenses.

(6) Includes expected payments for workers' compensation, postretirement benefits other than pensions, net unrecognized tax benefits, environmental liabilities, donations and pension obligations that have been classified as contractual settlement agreements.

For 2016 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

Free cash flow

Free cash flow is a non-GAAP measure that is reported as a supplementary indicator of the Company's performance. Management 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. 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.

In millions *Year ended December 31,*	**2015**	2014
Net cash provided by operating activities	**$ 5,140**	$ 4,381
Net cash used in investing activities	**(2,827)**	(2,176)
Net cash provided before financing activities	**2,313**	2,205
Adjustment: Change in restricted cash and cash equivalents	**60**	15
Free cash flow	**$ 2,373**	$ 2,220

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. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

Adjusted debt-to-total capitalization ratio

December 31,	**2015**	2014
Debt-to-total capitalization ratio (1) (2)	**41.1%**	38.3%
Add: Impact of present value of operating lease commitments (3)	**1.4%**	1.7%
Adjusted debt-to-total capitalization ratio	**42.5%**	40.0%

Adjusted debt-to-adjusted EBITDA multiple

In millions, unless otherwise indicated

Twelve months ended December 31,	**2015**	2014
Debt (2)	**$ 10,427**	$ 8,372
Add: Present value of operating lease commitments (3)	**607**	607
Adjusted debt	**$ 11,034**	$ 8,979
Operating income	**$ 5,266**	$ 4,624
Add: Depreciation and amortization	**1,158**	1,050
EBITDA (excluding Other income)	**6,424**	5,674
Add: Deemed interest on operating leases	**29**	28
Adjusted EBITDA	**$ 6,453**	$ 5,702
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**1.71**	1.57

(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) As a result of the retrospective adoption of a new accounting standard in the fourth quarter of 2015, the 2014 debt balance has been adjusted and the related financial ratios have been restated. See the section of this MD&A entitled Recent accounting pronouncements for additional information.

(3) 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, 2015, as compared to 2014, was mainly due to an increased debt level, reflecting a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date and the net issuance of debt, including commercial paper. The Company's adjusted debt-to-adjusted EBITDA multiple also increased, which was driven by the increased debt level as at December 31, 2015, partly offset by a higher operating income earned during 2015, as compared to 2014.

All forward-looking information provided in this section is subject to risks and uncertainties and is based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments.

See the section of this MD&A entitled *Forward-looking statements* for a discussion of assumptions and risk factors affecting such forward-looking statements.

Off balance sheet arrangements

Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit, surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business. As at December 31, 2015, the Company has not recorded a liability with respect to guarantees and indemnifications. Additional information relating to guarantees and indemnifications is provided in *Note 16 – Major commitments and contingencies* to the Company's 2015 Annual Consolidated Financial Statements.

Outstanding share data

As at February 1, 2016, the Company had 784.6 million common shares and 5.8 million stock options outstanding.

Financial instruments

Risk management

In the normal course of business, the Company is exposed to various risks from its use of financial instruments. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Finance Committee, with a goal of maintaining a strong balance sheet, optimizing earnings per share and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes.

Credit risk

Credit risk arises from cash and temporary investments, accounts receivable and derivative financial instruments. To manage credit risk associated with cash and temporary investments, the Company places these financial assets with governments, major financial institutions, or other creditworthy counterparties; and performs ongoing reviews of these entities. To manage credit risk associated with accounts receivable, the Company reviews the credit history of each new customer, monitors the financial condition and credit limits of its customers, and keeps the average daily sales outstanding within an acceptable range. The Company works with customers to ensure timely payments, and in certain cases, requires financial security, including letters of credit. Although the Company believes there are no significant concentrations of customer credit risk, economic conditions can affect the Company's customers and can result in an increase to the Company's credit risk and exposure to business failures of its customers. A widespread deterioration of customer credit and business failures of customers could have a material adverse effect on the Company's results of operations, financial position or liquidity. The Company considers the risk due to the possible non-performance by its customers to be remote.

The Company has limited involvement with derivative financial instruments, however from time to time, it may enter into derivative financial instruments to manage its exposure to interest rates or foreign currency exchange rates. To manage the counterparty risk associated with the use of derivative financial instruments, the Company enters into contracts with major financial institutions that have been accorded investment grade ratings. Though the Company is exposed to potential credit losses due to non-performance of these counterparties, the Company considers this risk remote.

Liquidity risk

Liquidity risk is the risk that sufficient funds will not be available to satisfy financial obligations as they come due. In addition to cash generated from operations, which represents its principal source of liquidity, the Company manages liquidity risk by aligning other external sources of funds which can be obtained upon short notice, such as a committed revolving credit facility, commercial paper, and an accounts receivable securitization program. As well, the Company can issue up to $6.0 billion of debt securities in the Canadian and U.S. capital markets, under its shelf prospectus and registration statement filed on January 5, 2016. Access to capital markets under the shelf prospectus and registration statement is dependent on market conditions. The Company believes that its investment grade credit ratings contribute to reasonable access to capital markets. See the section of this MD&A entitled *Liquidity and capital resources* for additional information relating to the Company's available financing sources.

Foreign currency risk

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Changes in the exchange rate between the Canadian dollar and the US dollar affect the Company's revenues and expenses. To manage foreign currency risk, the Company designates US dollar-denominated long-term debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated long-term debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated long-term debt into the Canadian dollar.

The Company also enters into foreign exchange forward contracts to manage its exposure to foreign currency risk. As at December 31, 2015, the Company had outstanding foreign exchange forward contracts with a notional value of US$361 million (US$350 million as at December 31, 2014). Changes in the fair value of foreign exchange forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur. For the years ended December 31, 2015, 2014 and 2013, the Company recorded a gain of $61 million, $9 million, and $6 million, respectively, related to foreign exchange forward contracts. These gains were largely offset by losses related to the re-measurement of other US dollar-denominated monetary assets and liabilities recognized in Other income. As at December 31, 2015, Other current assets included an unrealized gain of $4 million ($9 million as at December 31, 2014) and Accounts payable and other included an unrealized loss of $2 million (nil as at December 31, 2014), related to foreign exchange forward contracts.

The estimated annual impact on net income of a year-over-year one-cent change in the Canadian dollar relative to the US dollar is approximately $30 million.

Interest rate risk

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. Such risk exists in relation to the Company's long-term debt. The Company mainly issues fixed-rate debt, which exposes the Company to variability in the fair value of the debt. The Company also issues debt with variable interest rates, which exposes the Company to variability in interest expense.

To manage interest rate risk, the Company manages its borrowings in line with liquidity needs, maturity schedule, and currency and interest rate profile. In anticipation of future debt issuances, the Company may use derivative instruments such as forward rate agreements. The Company does not currently hold any significant derivative instruments to manage its interest rate risk. As at December 31, 2015, Accumulated other comprehensive loss included an unamortized gain of $7 million ($7 million as at December 31, 2014) relating to treasury lock transactions settled in a prior year, which is being amortized over the term of the related debt.

The estimated annual impact on net income of a year-over-year one-percent change in the interest rate on floating rate debt is approximately $10 million.

Commodity price risk

The Company is exposed to commodity price risk related to purchases of fuel and the potential reduction in net income due to increases in the price of diesel. Fuel prices are impacted by geopolitical events, changes in the economy or supply disruptions. Fuel shortages can occur due to refinery disruptions, production quota restrictions, climate, and labor and political instability.

The Company manages fuel price risk by offsetting the impact of rising fuel prices with the Company's fuel surcharge program. The surcharge applied to customers is determined in the second calendar month prior to the month in which it is applied, and is generally calculated using the average monthly price of On-Highway Diesel (OHD), and to a lesser extent West-Texas Intermediate crude oil (WTI).

The Company also enters into agreements with fuel suppliers which allow but do not require the Company to purchase all of its estimated 2016 volume, and approximately 25% of its anticipated 2017 volume at market prices prevailing on the date of the purchase.

While the Company's fuel surcharge program provides effective coverage, residual exposure remains given that fuel price risk cannot be completely managed due to timing and given the volatility in the market. As such, the Company may enter into derivative instruments to manage such risk when considered appropriate.

Fair value of financial instruments

The following table provides the valuation methods and assumptions used by the Company to estimate the fair value of financial instruments and their associated level within the fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets	The carrying amounts of Cash and cash equivalents and Restricted cash and cash equivalents approximate fair value. These financial instruments include highly liquid investments purchased three months or less from maturity, for which the fair value is determined by reference to quoted prices in active markets.
Level 2 Significant inputs (other than quoted prices included in Level 1) are observable	The carrying amounts of Accounts receivable, Other current assets, and Accounts payable and other approximate fair value. The fair value of these financial instruments is not determined using quoted prices, but rather from market observable information. The fair value of derivative financial instruments used to manage the Company's exposure to foreign currency risk and included in Other current assets and Accounts payable and other is measured by discounting future cash flows using a discount rate derived from market data for financial instruments subject to similar risks and maturities. The carrying amount of the Company's debt does not approximate fair value. The fair value is estimated based on quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. As at December 31, 2015, the Company's debt had a carrying amount of $10,427 million ($8,372 million as at December 31, 2014) and a fair value of $11,720 million ($9,767 million as at December 31, 2014).
Level 3 Significant inputs are unobservable	The carrying amounts of investments included in Intangible and other assets approximate fair value, with the exception of certain cost investments for which significant inputs are unobservable and fair value is estimated based on the Company's proportionate share of the underlying net assets. As at December 31, 2015, the Company's investments had a carrying amount of $69 million ($58 million as at December 31, 2014) and a fair value of $220 million ($183 million as at December 31, 2014).

Recent accounting pronouncements

The following recent Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) were adopted by the Company during the current period:

Standard	Description	Impact
ASU 2015-17 Income Taxes, Balance Sheet Classification of Deferred Taxes	Simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a statement of financial position, thus eliminating the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts.	The Company adopted this standard during the fourth quarter of 2015 on a retrospective basis. The current deferred income tax asset was reclassified as noncurrent and netted against the related noncurrent deferred income tax liability in the amount of $58 million and $68 million as at December 31, 2015 and 2014, respectively.
ASU 2015-03 Interest – Imputation of Interest	Simplifies the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a deduction from the carrying amount of debt.	The Company adopted this standard during the fourth quarter of 2015 on a retrospective basis. Debt issuance costs have been reclassified from assets to Long-term debt in the amount of $42 million and $37 million as at December 31, 2015 and 2014, respectively.

The following recent ASUs issued by FASB have an effective date after December 31, 2015 and have not been adopted by the Company:

Standard	Description	Impact	Effective date (1)
ASU 2016-01 Financial Instruments – Overall	Addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments require equity investments (except those accounted for under the equity method of accounting or those resulting in consolidation) to be measured at fair value with changes in fair value recognized in net income. The new guidance can be applied by means of a cumulative effect adjustment to the balance sheet at the beginning of the year of adoption.	The Company is evaluating the effect that the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017.
ASU 2014-09 Revenue from Contracts with Customers	Establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers. The basis of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance can be applied using a retrospective or the cumulative effect transition method.	The Company is evaluating the effect that the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017. Early adoption is permitted.

(1) Effective for annual and interim reporting periods beginning after the stated date.

Critical accounting estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon available information. Actual results could differ from these estimates. The Company's policies for income taxes, depreciation, pensions and other postretirement benefits, personal injury and other claims and environmental matters, require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements and, as such, are considered to be critical. The following information should be read in conjunction with the Company's 2015 Annual Consolidated Financial Statements and Notes thereto.

Management discusses the development and selection of the Company's critical accounting estimates with the Audit Committee of the Company's Board of Directors, and the Audit Committee has reviewed the Company's related disclosures.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net deferred income tax asset or liability is included in the computation of Net income or Other comprehensive income (loss). Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for temporary differences. The projection of future taxable income is based on management's best estimate and may vary from actual taxable income.

On an annual basis, the Company assesses the need to establish a valuation allowance for its deferred income tax assets, and if it is deemed more likely than not that its deferred income tax assets will not be realized, a valuation allowance is recorded. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred income tax liabilities, the available carryback and carryforward periods, and projected future taxable income in making this assessment. As at December 31, 2015, in order to fully realize all of the deferred income tax assets, the Company will need to generate future taxable income of approximately $2.2 billion and, based upon the level of historical taxable income and projections of future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. Management has assessed the impacts of the current economic environment and concluded there are no significant impacts to its assertions for the realization of deferred income tax assets.

In addition, Canadian, or domestic, tax rules and regulations, as well as those relating to foreign jurisdictions, are subject to interpretation and require judgment by the Company that may be challenged by the taxation authorities upon audit of the filed income tax returns. Tax benefits are recognized if it is more likely than not that the tax position will be sustained on examination by the taxation authorities. As at December 31, 2015, the total amount of gross unrecognized tax benefits was $27 million before considering tax treaties and other arrangements between taxation authorities. The amount of net unrecognized tax benefits as at December 31, 2015 was $19 million. If recognized, all of the net unrecognized tax benefits as at December 31, 2015 would affect the effective tax rate. The Company believes that it is reasonably possible that approximately $5 million of the net unrecognized tax benefits as at December 31, 2015 related to various federal, state, and provincial income tax matters, each of which are individually insignificant, may be recognized over the next twelve months as a result of settlements and a lapse of the applicable statute of limitations.

The Company's deferred income tax assets are mainly composed of temporary differences related to the pension liability, accruals for personal injury claims and other reserves, other postretirement benefits liability, and net operating losses and tax credit carryforwards. The majority of these accruals will be paid out over the next five years. The Company's deferred income tax liabilities are mainly composed of temporary differences related to properties. The reversal of temporary differences is expected at future-enacted income tax rates which could change due to fiscal budget changes and/or changes in income tax laws. As a result, a change in the timing and/or the income tax rate at which the components will reverse, could materially affect deferred income tax expense as recorded in the Company's results of operations. From time to time, the federal, provincial, and state governments enact new corporate income tax rates resulting in either lower or higher tax liabilities. A one-percentage-point change in either the Canadian or U.S. statutory federal tax rate would have the effect of changing the deferred income tax expense by approximately $115 million.

For the year ended December 31, 2015, the Company recorded total income tax expense of $1,336 million, of which $600 million was a deferred income tax expense which included a deferred income tax expense of $42 million resulting from the enactment of a higher provincial corporate income tax rate. For the year ended December 31, 2014, the Company recorded total income tax expense of $1,193 million, of which $416 million was a deferred income tax expense which included an income tax recovery of $18 million resulting from a change in the estimate of the deferred income tax liability related to properties. For the year ended December 31, 2013, the Company recorded total income tax expense of $977 million, of which $331 million was a deferred income tax expense and included a net income tax recovery of $7 million which consisted of a $15 million income tax recovery from the recognition of U.S. state income tax losses and a $16 million income tax recovery from a revision of the apportionment of U.S. state income taxes, which were partly offset by a combined $24 million income tax expense resulting from the enactment of higher provincial corporate income tax rates. The Company's net deferred income tax liability as at December 31, 2015 was $8,105 million ($6,834 million as at December 31, 2014). Additional disclosures are provided in *Note 4 – Income taxes* to the Company's 2015 Annual Consolidated Financial Statements.

Depreciation

Properties are carried at cost less accumulated depreciation including asset impairment write-downs. The cost of properties, including those under capital leases, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated service lives, measured in years, except for rail which is measured in millions of gross ton miles. The Company follows the group method of depreciation whereby a single composite depreciation rate is applied to the gross investment in a class of similar assets, despite small differences in the service life or salvage value of individual property units within the same asset class. The Company uses approximately 40 different depreciable asset classes.

For all depreciable assets, the depreciation rate is based on the estimated service lives of the assets. Assessing the reasonableness of the estimated service lives of properties requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. The Company's U.S. properties are subject to comprehensive depreciation studies as required by the Surface Transportation Board (STB) and are conducted by external experts. Depreciation studies for Canadian properties are not required by regulation and are conducted internally. Studies are performed on specific asset groups on a periodic basis. Changes in the estimated service lives of the assets and their related composite depreciation rates are implemented prospectively.

The studies consider, among other factors, the analysis of historical retirement data using recognized life analysis techniques, and the forecasting of asset life characteristics. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations can result in the actual service lives differing from the Company's estimates.

A change in the remaining service life of a group of assets, or their estimated net salvage value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. A change of one year in the composite service life of the Company's fixed asset base would impact annual depreciation expense by approximately $30 million.

Depreciation studies are a means of ensuring that the assumptions used to estimate the service lives of particular asset groups are still valid and where they are not, they serve as the basis to establish the new depreciation rates to be used on a prospective basis. In the third quarter of 2015, the Company completed depreciation studies for road properties and as a result, the Company changed the estimated service lives for various types of road assets and their related composite depreciation rates. The results of these depreciation studies did not materially affect the Company's annual depreciation expense.

In 2015, the Company recorded total depreciation expense of $1,156 million ($1,050 million in 2014 and $979 million in 2013). As at December 31, 2015, the Company had Properties of $32,624 million, net of accumulated depreciation of $12,203 million ($28,514 million, net of accumulated depreciation of $11,195 million, as at December 31, 2014). Additional disclosures are provided in *Note 7 – Properties* to the Company's 2015 Annual Consolidated Financial Statements.

U.S. GAAP requires the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Pensions and other postretirement benefits

The Company's plans have a measurement date of December 31. The following table provides the Company's pension asset, pension liability and other postretirement benefits liability as at December 31, 2015 and 2014:

In millions *December 31,*	**2015**	2014
Pension asset	**$ 1,305**	$ 882
Pension liability	**469**	400
Other postretirement benefits liability	**269**	267

The descriptions in the following paragraphs pertaining to pensions relate generally to the Company's main pension plan, the CN Pension Plan, unless otherwise specified.

Calculation of net periodic benefit cost (income)

In accounting for pensions and other postretirement benefits, assumptions are required for, among other things, the discount rate, the expected long-term rate of return on plan assets, the rate of compensation increase, health care cost trend rates, mortality rates, employee early retirements, terminations and disability. Changes in these assumptions result in actuarial gains or losses, which are recognized in Other comprehensive income (loss). The Company generally amortizes these gains or losses into net periodic benefit cost over the expected average remaining service life of the employee group covered by the plans only to the extent that the unrecognized net actuarial gains and losses are in excess of the corridor threshold, which is calculated as 10% of the greater of the beginning-of-year balances of the projected benefit obligation or market-related value of plan assets. The Company's net periodic benefit cost for future periods is dependent on demographic experience, economic conditions and investment performance. Recent demographic experience has revealed no material net gains or losses on termination, retirement, disability and mortality. Experience with respect to economic conditions and investment performance is further discussed herein.

For the years ended December 31, 2015, 2014 and 2013, the consolidated net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

In millions *Year ended December 31,*	**2015**	2014	2013
Net periodic benefit cost (income) for pensions	**$ 34**	$ (4)	$ 90
Net periodic benefit cost for other postretirement benefits	**10**	12	14

As at December 31, 2015 and 2014, the projected pension benefit obligation and accumulated other postretirement benefit obligation were as follows:

In millions *December 31,*	**2015**	2014
Projected pension benefit obligation	**$ 17,081**	$ 17,279
Accumulated other postretirement benefit obligation	**269**	267

Discount rate assumption

The Company's discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and net periodic benefit cost (income) for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for pension benefits as they become due. The discount rate is determined by management with the aid of third-party actuaries. For the Canadian pension and other postretirement benefit plans, future expected benefit payments at each measurement date are discounted using spot rates from a derived AA corporate bond yield curve. The derived curve is based on observed rates for AA corporate bonds with short-term maturities and a projected AA corporate curve for longer-term maturities based on spreads between observed AA corporate bonds and AA provincial bonds. The derived curve is expected to generate cash flows that match the estimated future benefit payments of the plans as the bond rate for each maturity year is applied to the plans' corresponding expected benefit payments of that year. A discount rate of 3.99%, based on bond yields prevailing at December 31, 2015 (3.87% at December 31, 2014) was considered appropriate by the Company.

Beginning in 2016, the Company will adopt the spot rate approach to measure current service cost and interest cost for all defined benefit pension and other postretirement benefit plans on a prospective basis as a change in accounting estimate. In 2015 and in prior years, these costs were determined using the discount rate used to measure the projected benefit obligation at the beginning of the period.

The spot rate approach enhances the precision to which current service cost and interest cost are measured by increasing the correlation between projected cash flows and spot discount rates corresponding to their maturity. Under the spot rate approach, individual spot discount rates along the same yield curve used in the determination of the projected benefit obligation are applied to the relevant projected cash flows at the relevant maturity. More specifically, current service cost is measured using the projected cash flows related to benefits expected to be accrued in the following year by active members of a plan and interest cost is measured using the projected cash flows making up the projected benefit obligation multiplied by the corresponding spot discount rate at each maturity. Use of the spot rate approach does not affect the measurement of the projected benefit obligation.

Based on bond yields prevailing at December 31, 2015, the single equivalent discount rates to determine current service cost and interest cost under the spot rate approach in 2016 are 4.24% and 3.27%, respectively, compared to 3.99%, for both costs, under the approach applicable in 2015 and prior years. For 2016, the Company estimates the adoption of the spot rate approach will increase net periodic benefit income by approximately $120 million compared to the approach applicable in 2015 and prior years.

For the year ended December 31, 2015, a 0.25% decrease in the 3.99% discount rate used to determine the projected benefit obligation would have resulted in a decrease of approximately $495 million to the funded status for pensions and would result in a decrease of approximately $20 million to the 2016 projected net periodic benefit income. A 0.25% increase in the discount rate would have resulted in an increase of approximately $475 million to the funded status for pensions and would result in an increase of approximately $20 million to the 2016 projected net periodic benefit income.

Expected long-term rate of return assumption

To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers multiple factors. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current asset portfolio mix. Consideration is taken of the historical performance, the premium return generated from an actively managed portfolio, as well as current and future anticipated asset allocations, economic developments, inflation rates and administrative expenses. Based on these factors, the rate is determined by the Company. For 2015, the Company used a long-term rate of return assumption of 7.00% on the market-related value of plan assets to compute net periodic benefit cost. For 2016, the Company will maintain the expected long-term rate of return on plan assets at 7.00% to reflect management's current view of long-term investment returns. The Company has elected to use a market-related value of assets, whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments are recognized over a period of five years, while investment income is recognized immediately. If the Company had elected to use the market value of assets, which for the CN Pension Plan at December 31, 2015 was above the market-related value of assets by approximately $1,760 million, the projected net periodic benefit income for 2016 would increase by approximately $270 million.

The assets of the Company's various plans are held in separate trust funds ("Trusts") which are diversified by asset type, country and investment strategies. Each year, the CN Board of Directors reviews and confirms or amends the Statement of Investment Policies and Procedures (SIPP) which includes the plans' long-term asset mix target and related benchmark indices ("Policy"). This Policy is based on a long-term forward-looking view of the world economy, the dynamics of the plans' benefit liabilities, the market return expectations of each asset class and the current state of financial markets. The target long-term asset mix in 2015 was: 3% cash and short-term investments, 37% bonds and mortgages, 45% equities, 4% real estate, 7% oil and gas and 4% infrastructure investments.

Annually, the CN Investment Division ("Investment Manager"), a division of the Company created to invest and administer the assets of the plans, proposes a short-term asset mix target ("Strategy") for the coming year, which is expected to differ from the Policy, because of current economic and market conditions and expectations. The Investment Committee of the Board ("Committee") regularly compares the actual asset mix to the Policy and Strategy and compares the actual performance of the Company's pension plans to the performance of the benchmark indices.

The Committee's approval is required for all major investments in illiquid securities. The SIPP allows for the use of derivative financial instruments to implement strategies or to hedge or adjust existing or anticipated exposures. The SIPP prohibits investments in securities of the Company or its subsidiaries. During the last 10 years ended December 31, 2015, the CN Pension Plan earned an annual average rate of return of 6.06%.

The actual, market-related value, and expected rates of return on plan assets for the last five years were as follows:

	2015	2014	2013	2012	2011
Actual	**5.5%**	10.1%	11.2%	7.7%	0.3%
Market-related value	**7.0%**	7.6%	7.3%	2.3%	3.0%
Expected	**7.00%**	7.00%	7.00%	7.25%	7.50%

The Company's expected long-term rate of return on plan assets reflects management's view of long-term investment returns and the effect of a 1% variation in such rate of return would result in a change to the net periodic benefit cost of approximately $90 million. Management's assumption of the expected long-term rate of return is subject to risks and uncertainties that could cause the actual rate of return to differ materially from management's assumption. There can be no assurance that the plan assets will be able to earn the expected long-term rate of return on plan assets.

Net periodic benefit income for pensions for 2016

In 2016, the Company expects net periodic benefit income of approximately $120 million for all its defined benefit pension plans. The favorable variance compared to 2015 is primarily due to lower current service cost and interest cost resulting from the adoption of the spot rate approach as well as lower amortization of actuarial losses resulting from the increase in the discount rate from 3.87% to 3.99%.

Plan asset allocation

Based on the fair value of the assets held as at December 31, 2015, the assets of the Company's various plans are comprised of 2% in cash and short-term investments, 30% in bonds and mortgages, 40% in equities, 2% in real estate assets, 5% in oil and gas, 7% in infrastructure, 11% in absolute return investments, and 3% in risk-based allocation investments. See *Note 12 - Pensions and other postretirement benefits* to the Company's 2015 Annual Consolidated Financial Statements for information on the fair value measurements of such assets.

A significant portion of the plans' assets are invested in publicly traded equity securities whose return is primarily driven by stock market performance. Debt securities also account for a significant portion of the plans' investments and provide a partial offset to the variation in the pension benefit obligation that is driven by changes in the discount rate. The funded status of the plan fluctuates with market conditions and impacts funding requirements. The Company will continue to make contributions to the pension plans that as a minimum meet pension legislative requirements.

Rate of compensation increase and health care cost trend rate

The rate of compensation increase is determined by the Company based upon its long-term plans for such increases. For 2015, a basic rate of compensation increase of 2.75% was used to determine the projected benefit obligation and 3.00% for the net periodic benefit cost.

For postretirement benefits other than pensions, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. For measurement purposes, the projected health care cost trend rate was assumed to be 6.5% in 2015, and it is assumed that the rate will decrease gradually to 4.5% in 2028 and remain at that level thereafter.

For the year ended December 31, 2015, a one-percentage-point change in either the rate of compensation increase or the health care cost trend rate would not cause a material change to the Company's net periodic benefit cost for both pensions and other postretirement benefits.

Mortality

The Canadian Institute of Actuaries (CIA) published in 2014 a report on Canadian Pensioners' Mortality ("Report"). The Report contained Canadian pensioners' mortality tables and improvement scales based on experience studies conducted by the CIA. The CIA's conclusions were taken into account in selecting management's best estimate mortality assumption used to calculate the projected benefit obligation as at December 31, 2015 and 2014.

Funding of pension plans

The Company's main Canadian defined benefit pension plan, the CN Pension Plan, accounts for approximately 92% of the Company's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the plan's funded status, and Canadian statutory pension funding requirements. Adverse changes to the assumptions used to calculate the plan's funding status, particularly the discount rate used for funding purposes, as well as changes to existing federal pension legislation, regulation and guidance could significantly impact the Company's future contributions.

For accounting purposes, the funded status is calculated under generally accepted accounting principles for all pension plans. For funding purposes, the funded status is also calculated under going concern and solvency scenarios as prescribed under pension legislation and subject to guidance issued by the CIA and the Office of the Superintendent of Financial Institutions (OSFI) for all registered Canadian defined benefit pension plans. The Company's funding requirements are determined upon completion of actuarial valuations. Actuarial valuations are generally required on an annual basis for all Canadian plans, or when deemed appropriate by the OSFI. Actuarial valuations are also required annually for the Company's U.S. qualified pension plans.

The Company's latest actuarial valuations for funding purposes of its Canadian registered pension plans conducted as at December 31, 2014 indicated a funding excess on a going concern basis of approximately $1.9 billion and a funding deficit on a solvency basis of approximately $0.7 billion, calculated using the three-year average of the plans' hypothetical wind-up ratio in accordance with the *Pension Benefit Standards Regulations, 1985*. The federal pension legislation requires funding deficits, as calculated under current pension regulations, to be paid over a number of years. Alternatively, a letter of credit can be subscribed to fulfill required solvency deficit payments.

The Company's next actuarial valuations for its Canadian registered pension plans required as at December 31, 2015 will be performed in 2016. These actuarial valuations are expected to identify a funding excess on a going concern basis of approximately $2.3 billion, while on a solvency basis a funding excess of approximately $0.2 billion is expected. Based on the anticipated results of these valuations, the Company expects to make total cash contributions of approximately $115 million for all of the Company's pension plans in 2016. The Company expects cash from operations and its other sources of financing to be sufficient to meet its 2016 funding obligations.

See the section of this MD&A entitled *Liquidity and capital resources – Pension contributions* for additional information relating to pension contributions.

Information disclosed by major pension plan

The following table provides the Company's plan assets by category, projected benefit obligation at end of year, as well as Company and employee contributions by major defined benefit pension plan:

In millions *December 31, 2015*	**CN Pension Plan**	**BC Rail Pension Plan**	**U.S. and other plans**	**Total**
Plan assets by category				
Cash and short-term investments	$ 346	$ 14	$ 29	**$ 389**
Bonds	4,969	200	104	**5,273**
Mortgages	122	4	1	**127**
Equities	6,766	215	126	**7,107**
Real estate	345	11	1	**357**
Oil and gas	976	31	5	**1,012**
Infrastructure	1,194	38	5	**1,237**
Absolute return	1,847	59	8	**1,914**
Risk-based allocation	407	13	2	**422**
Other (1)	66	3	10	**79**
Total plan assets	**$ 17,038**	**$ 588**	**$ 291**	**$ 17,917**
Projected benefit obligation at end of year	$ 15,794	$ 532	$ 755	**$ 17,081**
Company contributions in 2015	78	-	30	**108**
Employee contributions in 2015	58	-	-	**58**

(1) Other consists of operating assets of $119 million and liabilities of $40 million required to administer the Trusts' investment assets and the plans' benefit and funding activities.

Additional disclosures are provided in *Note 12 – Pensions and other postretirement benefits* to the Company's 2015 Annual Consolidated Financial Statements.

Personal injury and other claims

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

Canada

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or a future stream of payments depending on the nature and severity of the injury. As such, the provision for employee injury claims is discounted. In the provinces where the Company is self-insured, costs related to employee work-related injuries are accounted for based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs. A comprehensive actuarial study is generally performed at least on a triennial basis. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

In 2015, the Company recorded a $12 million decrease to its provision for personal injuries and other claims in Canada as a result of a comprehensive actuarial study for employee injury claims as well as various other claims. In 2014 and 2013, external actuarial studies resulted in a net decrease of $2 million and a net increase of $1 million, respectively.

As at December 31, 2015, 2014 and 2013 the Company's provision for personal injury and other claims in Canada was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 203**	$ 210	$ 209
Accruals and other	**17**	28	38
Payments	**(29)**	(35)	(37)
End of year	**$ 191**	$ 203	$ 210
Current portion - End of year	**$ 27**	$ 28	$ 31

The assumptions used in estimating the ultimate costs for Canadian employee injury claims include, among other factors, the discount rate, the rate of inflation, wage increases and health care costs. The Company periodically reviews its assumptions to reflect currently available information. Over the past three years, the Company has not significantly changed any of these assumptions. Changes in any of these assumptions could materially affect Casualty and other expense as reported in the Company's results of operations.

For all other legal claims in Canada, estimates are based on the specifics of the case, trends and judgment.

United States

Personal injury claims by the Company's employees, including claims alleging occupational disease and work-related injuries, are subject to the provisions of the *Federal Employers' Liability Act* (FELA). Employees are compensated under FELA for damages assessed based on a finding of fault through the U.S. jury system or through individual settlements. As such, the provision is undiscounted. With limited exceptions where claims are evaluated on a case-by-case basis, the Company follows an actuarial-based approach and accrues the expected cost for personal injury, including asserted and unasserted occupational disease claims, and property damage claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is performed annually.

For employee work-related injuries, including asserted occupational disease claims, and third-party claims, including grade crossing, trespasser and property damage claims, the actuarial valuation considers, among other factors, the Company's historical patterns of claims filings and payments. For unasserted occupational disease claims, the actuarial study includes the projection of the Company's experience into the future considering the potentially exposed population. The Company adjusts its liability based upon management's assessment and the results of the study. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.

Due to the inherent uncertainty involved in projecting future events, including events related to occupational diseases, which include but are not limited to, the timing and number of actual claims, the average cost per claim and the legislative and judicial environment, the Company's future payments may differ from current amounts recorded.

In 2015, the Company recorded a $5 million reduction to its provision for U.S. personal injury and other claims attributable to non-occupational disease claims, third-party claims and occupational disease claims pursuant to the 2015 external actuarial study. In 2014 and 2013, external actuarial studies resulted in a net decrease of $20 million and $11 million, respectively. The prior years' decreases from the 2014 and 2013 actuarial valuations were mainly attributable to non-occupational disease claims, third-party claims and occupational disease claims, reflecting a decrease in the Company's estimates of unasserted claims and costs related to asserted claims. The Company has an ongoing risk mitigation strategy focused on reducing the frequency and severity of claims through injury prevention and containment; mitigation of claims; and lower settlements of existing claims.

As at December 31, 2015, 2014 and 2013, the Company's provision for personal injury and other claims in the U.S. was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 95**	$ 106	$ 105
Accruals and other	**22**	2	18
Payments	**(30)**	(22)	(24)
Foreign exchange	**18**	9	7
End of year	**$ 105**	$ 95	$ 106
Current portion - End of year	**$ 24**	$ 20	$ 14

For the U.S. personal injury and other claims liability, historical claim data is used to formulate assumptions relating to the expected number of claims and average cost per claim for each year. Changes in any one of these assumptions could materially affect Casualty and other expense as reported in the Company's results of operations. A 5% change in the asbestos average claim cost or a 1% change in the inflation trend rate for all injury types would result in an increase or decrease in the liability recorded of approximately $2 million.

Environmental matters

Known existing environmental concerns

The Company has identified approximately 215 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal *Comprehensive Environmental Response, Compensation, and Liability Act* of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at 6 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

The ultimate cost of addressing these known contaminated sites cannot be definitively established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Environmental expenses, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

As at December 31, 2015, 2014 and 2013, the Company's provision for specific environmental sites was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 114**	$ 119	$ 123
Accruals and other	**81**	11	12
Payments	**(91)**	(19)	(18)
Foreign exchange	**6**	3	2
End of year	**$ 110**	$ 114	$ 119
Current portion - End of year	**$ 51**	$ 45	$ 41

The Company anticipates that the majority of the liability at December 31, 2015 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its provisions to be adequate.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred for environmental matters based on known information, the discovery of new facts, future changes in laws, the possibility of releases of hazardous materials into the environment and the Company's ongoing efforts to identify potential environmental liabilities that may be associated with its properties may result in the identification of additional environmental liabilities and related costs. The magnitude of such additional liabilities and the costs of complying with future environmental laws and containing or remediating contamination cannot be reasonably estimated due to many factors, including:

- the lack of specific technical information available with respect to many sites;
- the absence of any government authority, third-party orders, or claims with respect to particular sites;

- the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites; and
- the determination of the Company's liability in proportion to other potentially responsible parties and the ability to recover costs from any third parties with respect to particular sites.

Therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such liabilities or costs, although management believes, based on current information, that the costs to address environmental matters will not have a material adverse effect on the Company's financial position or liquidity. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

Future occurrences

In railroad and related transportation operations, it is possible that derailments or other accidents, including spills and releases of hazardous materials, may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, compliance with laws and other risks, including costs relating to the performance of clean-ups, payment of environmental penalties and remediation obligations, and damages relating to harm to individuals or property.

Regulatory compliance

The Company may incur significant capital and operating costs associated with environmental regulatory compliance and clean-up requirements, in its railroad operations and relating to its past and present ownership, operation or control of real property. Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Operating expenses for environmental matters amounted to $20 million in 2015, $20 million in 2014 and $18 million in 2013. For 2016, the Company expects to incur operating expenses relating to environmental matters in the same range as 2015. In addition, based on the results of its operations and maintenance programs, as well as ongoing environmental audits and other factors, the Company plans for specific capital improvements on an annual basis. Certain of these improvements help ensure facilities, such as fuelling stations and waste water and storm water treatment systems, comply with environmental standards and include new construction and the updating of existing systems and/or processes. Other capital expenditures relate to assessing and remediating certain impaired properties. The Company's environmental capital expenditures amounted to $18 million in 2015, $19 million in 2014 and $10 million in 2013. For 2016, the Company expects to incur capital expenditures relating to environmental matters in the same range as 2015.

Business risks

In the normal course of business, the Company is exposed to various business risks and uncertainties that can have an effect on the Company's results of operations, financial position, or liquidity. While some exposures may be reduced by the Company's risk management strategies, many risks are driven by external factors beyond the Company's control or are of a nature which cannot be eliminated. The key areas of business risks and uncertainties described in this section are not the only ones that can affect the Company. Additional risks and uncertainties not currently known to management or that may currently not be considered material by management, could nevertheless also have an adverse effect on the Company's business.

Competition

The Company faces significant competition, including from rail carriers and other modes of transportation, and is also affected by its customers' flexibility to select among various origins and destinations, including ports, in getting their products to market. Specifically, the Company faces competition from Canadian Pacific Railway Company, which operates the other major rail system in Canada and services most of the same industrial areas, commodity resources and population centers as the Company; major U.S. railroads and other Canadian and U.S. railroads; long-distance trucking companies, transportation via the St. Lawrence-Great Lakes Seaway and the Mississippi River and transportation via pipelines. In addition, while railroads must build or acquire and maintain their rail systems, motor carriers and barges are able to use public rights-of-way that are built and maintained by public entities without paying fees covering the entire costs of their usage.

Competition is generally based on the quality and the reliability of the service provided, access to markets, as well as price. Factors affecting the competitive position of customers, including exchange rates and energy cost, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins. Factors affecting the general market conditions for the Company's customers can result in an imbalance of transportation capacity relative to demand. An extended period of supply/demand imbalance could negatively impact market rate levels for all transportation services, and more specifically the Company's ability to maintain or increase rates. This, in turn, could materially and adversely affect the Company's business, results of operations or financial position.

The level of consolidation of rail systems in the U.S. has resulted in larger rail systems that are in a position to compete effectively with the Company in numerous markets.

There can be no assurance that the Company will be able to compete effectively against current and future competitors in the transportation industry, and that further consolidation within the transportation industry and that legislation allowing for more leniency in size and weight for motor carriers will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant operating and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred for environmental matters in the next several years based on known information, the discovery of new facts, future changes in laws, the possibility of releases of hazardous materials into the environment and the Company's ongoing efforts to identify potential environmental liabilities that may be associated with its properties may result in the identification of additional environmental liabilities and related costs.

In railroad and related transportation operations, it is possible that derailments or other accidents, including spills and releases of hazardous materials, may occur that could cause harm to human health or to the environment. In addition, the Company is also exposed to potential catastrophic liability risk, faced by the railroad industry generally, in connection with the transportation of toxic inhalation hazard materials such as chlorine and anhydrous ammonia, or other dangerous commodities like crude oil and propane that the Company may be required to transport as a result of its common carrier obligations. Therefore, the Company may incur costs in the future, which may be material, to address any such harm, compliance with laws or other risks, including costs relating to the performance of clean-ups, payment of environmental penalties and remediation obligations, and damages relating to harm to individuals or property.

The environmental liability for any given contaminated site varies depending on the nature and extent of the contamination; the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As such, the ultimate cost of addressing known contaminated sites cannot be definitively established. Also, additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases.

While some exposures may be reduced by the Company's risk mitigation strategies (including periodic audits, employee training programs, emergency plans and procedures, and insurance), many environmental risks are driven by external factors beyond the Company's control or are of a nature which cannot be completely eliminated. Therefore, there can be no assurance, notwithstanding the Company's mitigation strategies, that liabilities or costs related to environmental matters will not be incurred in the future or that environmental matters will not have a material adverse effect on the Company's results of operations, financial position or liquidity, or reputation.

Personal injury and other claims

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease, and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents. The Company maintains provisions for such items, which it considers to be adequate for all of its outstanding or pending claims and benefits from insurance coverage for occurrences in excess of certain amounts. The final outcome with respect to actions outstanding or pending at December 31, 2015, or with respect to future claims, cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's results of operations, financial position or liquidity, in a particular quarter or fiscal year.

Labor negotiations

As at December 31, 2015, CN employed a total of 16,022 employees in Canada, of which 11,708, or 73%, were unionized employees. As at December 31, 2015, CN employed a total of 7,150 employees in the U.S., of which 5,584, or 78%, were unionized employees. The Company's relationships with its unionized workforce are governed by, amongst other items, collective agreements which are negotiated from time to time. Disputes relating to the renewal of collective agreements could potentially result in strikes, slowdowns and loss of business. Future labor agreements or renegotiated agreements could increase labor and fringe benefits expenses. There can be no assurance that the Company will be able to renew and have its collective agreements ratified without any strikes or lockouts or that the resolution of these collective bargaining negotiations will not have a material adverse effect on the Company's results of operations or financial position.

Canadian workforce

During 2015, the Company renewed collective agreements with the United Steelworkers of America (USW) governing maintenance of way employees; the Teamsters Canada Rail Conference (TCRC) governing rail traffic controllers and locomotive engineers; Unifor, governing clerical, intermodal and shopcraft employees, as well as owner-operator truck drivers. The new collective agreements will expire at various dates between December 31, 2017 and March 31, 2019.

U.S. workforce

As of February 1, 2016, the Company had in place agreements with bargaining units representing the entire unionized workforce at Grand Trunk Western Railroad Company (GTW), companies owned by Illinois Central Corporation (ICC), companies owned by Wisconsin Central Ltd. (WC), Bessemer & Lake Erie Railroad Company (BLE) and The Pittsburgh and Conneaut Dock Company (PCD). Agreements in place have various moratorium provisions up to 2018, which preserve the status quo in respect of the given collective agreement during the terms of such moratoriums. All collective agreements covering non-operating craft employees and four collective agreements covering operating craft employees are currently under renegotiation.

During 2015, the Company renewed a collective agreement with the United Transportation Union (UTU) (a division of the International Association of Sheet Metal, Air, Rail, and Transportation Workers - SMART) governing conductors on the Grand Trunk Western. On January 15, 2016, the Company renewed three additional collective agreements with UTU governing 57 yardmasters at GTW, WC and a small subset working on the ICC.

The general approach to labor negotiations by U.S. Class I railroads is to bargain on a collective national basis with the industry, which GTW, ICC, WC and BLE have agreed to participate in, effective January 2015, for collective agreements covering non-operating employees. Collective agreements covering operating employees at GTW, ICC, WC, BLE and all employees at PCD continue to be bargained on a local (corporate) basis.

Where negotiations are ongoing, the terms and conditions of existing agreements generally continue to apply until new agreements are reached or the processes of the *Railway Labor Act* have been exhausted.

Regulation

Economic regulation – Canada

The Company's rail operations in Canada are subject to economic regulation by the Canadian Transportation Agency ("Agency") under the *Canada Transportation Act* (CTA). The CTA provides rate and service remedies, including final offer arbitration (FOA), competitive line rates and compulsory interswitching. It also regulates the maximum revenue entitlement for the movement of grain, charges for railway ancillary services and noise-related disputes. In addition, various Company business transactions must gain prior regulatory approval, with attendant risks and uncertainties.

On May 29, 2014, Bill C-30 came into force, which provides authority to the Government to establish minimum volumes of grain to be moved and penalties in the event that thresholds are not met. During 2014, the Government of Canada issued Orders in Council prescribing each of the Company and Canadian Pacific Railway Company to move various weekly minimum volumes of grain during specified periods through to March 28, 2015. Since March 28, 2015, the Government has not imposed any minimum grain volume requirements; however, as long as the amendments in Bill C-30 remain in effect, the Government can choose to stipulate volume requirements. Under other provisions of this bill, the Agency also extended the interswitching distance to 160 kilometers from the previous 30 kilometers limits for all commodities in the provinces of Manitoba, Saskatchewan and Alberta; and issued regulations defining what constitutes 'operational terms' for the purpose of rail level of service arbitrations. In the event that a railway fails to fulfill its service level obligations, Bill C-30 also allows the Agency to order a railway company to pay shippers for expenses incurred. The amendments introduced by Bill C-30 are intended to remain in effect up to August 1, 2016, unless further extended by Parliament.

On June 25, 2014, the Government launched a statutory review of the CTA. The panel appointed by the Government to conduct this review was expected to provide their report to the Federal Minister of Transport on December 24, 2015. CN provided comments on the subjects being examined in 2015. It is unclear what actions, if any, will be taken by Transport Canada after they consider the findings of the report; however, additional regulations could be proposed as a result of the review.

On June 18, 2015, Bill C-52 came into force, which requires railway companies to maintain minimum liability insurance coverage and establishes a strict liability regime on railway companies up to their minimum insurance levels in respect of losses incurred as a result of a railway accident involving crude oil. Bill C-52 creates a fund capitalized through levies payable by crude oil shippers to compensate for losses exceeding the railway company's minimum insurance level. Currently, the Company's liability insurance coverage exceeds the minimum required. The provisions relating to insurance requirements and the fund are expected to come into force in June 2016.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the Canadian federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Economic regulation – U.S.

The Company's U.S. rail operations are subject to economic regulation by the Surface Transportation Board (STB). The STB serves as both an adjudicatory and regulatory body and has jurisdiction over railroad rate and service issues and rail restructuring transactions such as mergers, line sales, line construction and line abandonments. As such, various Company business transactions must gain prior regulatory approval and aspects of its pricing and service practices may be subject to challenge, with attendant risks and uncertainties. The STB has undertaken proceedings in the past few years in a number of significant matters that remain pending, as noted below.

On December 12, 2013, the STB instituted a proceeding on how to ensure its rate complaint procedures are accessible to grain shippers and provide effective protection against unreasonable grain rates, subsequent to which it received comments and replies. The STB held a hearing on these matters in 2015. No further significant developments have occurred.

On December 20, 2013, the STB instituted a rulemaking to review how it determines the rail industry's cost of equity capital, and on April 2, 2014, joined it with a proceeding to explore its methodology for determining railroad revenue adequacy and the revenue adequacy component used in judging the reasonableness of rail rates. The STB held hearings on these matters on July 22-23, 2015. In addition, on September 8, 2015, the STB made its annual revenue adequacy determination for Class I carriers for 2014. The STB determined that four Class I carriers are revenue adequate, among them Grand Trunk Corporation, which includes CN's U.S. affiliated operations.

On October 8, 2014, the STB issued a decision requiring all Class I railroads to provide each week a broad range of operational data, starting October 22, 2014. The STB is seeking to provide access to rail performance data sought by shippers and to meet the STB's objective of promoting transparency, accountability, and improvements in rail service. The STB also directed that data specific to Chicago and a narrative summary of operating conditions in Chicago as well as Chicago Transportation Coordination Office (CTCO) contingency protocols and other industry-wide information be provided from individual railroads. On December 30, 2014, the STB issued a notice of proposed rulemaking to require Class I railroads to permanently report certain service performance metrics on a weekly basis, however no final rule has been issued.

Pursuant to the *Passenger Rail Investment and Improvement Act of 2008* (PRIIA), the U.S. Congress authorized the STB to investigate any railroad over whose track Amtrak operates that fails to meet heightened performance standards jointly promulgated by the Federal Railroad Administration (FRA) and Amtrak for Amtrak operations extending over two calendar quarters and to determine the cause of such failures. Should the STB commence an investigation and determine that a failure to meet these standards is due to the host railroad's failure to provide preference to Amtrak, the STB is authorized to assess damages against the host railroad. On January 19, 2012, Amtrak filed a complaint with the STB to commence such an investigation, including a request for damages for preference failures, for allegedly sub-standard performance of Amtrak trains on CN's ICC and GTW lines. On December 19, 2014, the STB granted Amtrak's motion to amend its complaint to limit the STB's investigation to a single Amtrak service on CN's ICC line. That case has been stayed pending a notice of proposed rulemaking on December 28, 2015 to define on-time performance under Section 213 of PRIIA, and a proposed policy statement on the same date offering guidance on appropriate evidence and on preference issues in such investigations. During this period, the rail industry also challenged as unconstitutional Congress' delegation to Amtrak and the FRA of joint legislative authority to promulgate the PRIIA performance standards, and on July 2, 2013, the U.S. Court of Appeals for the District of Columbia Circuit so ruled. On March 9, 2015, however, the Supreme Court vacated the D.C. Circuit's July 2, 2013 decision and returned the case to that court for review of the constitutional claims not previously ruled upon. As a result, the joint FRA/Amtrak performance standards became applicable again on April 10, 2015, pending the D.C. Circuit's review. The court held oral argument on November 10, 2015, and a decision is expected during the first quarter of 2016.

The U.S. Congress has had under consideration various pieces of legislation that would increase federal economic regulation of the railroad industry. On March 24, 2015, legislation was introduced in the Senate (S.853) which would (among a number of other provisions) allow for reciprocal switching for junctions within 100 miles, however, no further action was taken in Congress as of the date of this MD&A. On December 18, 2015, STB reauthorization legislation (S.808) was passed by Congress and signed into law by the President. In addition to addressing arbitration and the Board's investigatory authority, the new law further streamlines the STB's rate-case review process, and extends current STB membership from three Commissioners to five.

The acquisition of the Elgin, Joliet and Eastern Railway Company (EJ&E) in 2009 followed an extensive regulatory approval process by the STB, which included an Environmental Impact Statement (EIS) that resulted in conditions imposed to mitigate municipalities' concerns regarding increased rail activity expected along the EJ&E line. The Company accepted the STB-imposed conditions with one exception. The Company filed an appeal at the U.S. Court of Appeals for the D.C. Circuit challenging the STB's condition requiring the installation of grade separations at two locations along the EJ&E line at Company funding levels significantly beyond prior STB practice. Appeals were also filed by certain communities challenging the sufficiency of the EIS. On March 15, 2011, the Court denied the CN and community appeals. As such, the Company has estimated remaining commitments, through to December 31, 2017, of approximately $48 million (US$35 million), in relation to the acquisition.

The STB also imposed a five-year monitoring and oversight condition on the transaction, subsequently extended by an additional year to January 2015, and an additional two years to January 23, 2017, during which the Company is required to file with the STB monthly operational reports as well as quarterly reports on the implementation status of the STB-imposed mitigation conditions. This permits the STB to take further action if there is a material change in the facts and circumstances upon which it relied in imposing the specific mitigation conditions.

On November 8, 2012, the STB denied a request made by the Village of Barrington, Illinois (Barrington) to reopen its EJ&E approval decision and impose additional mitigation requiring CN to provide a grade separation at a location along the EJ&E line in Barrington, a requested condition the STB had previously denied. On July 18, 2014, the U.S. Court of Appeals for the D.C. Circuit denied Barrington's appeal of the STB's decision. On November 26, 2014, Barrington again sought reopening to have a grade separation condition imposed at CN's expense at the intersection of U.S. Highway 14 and the EJ&E line in Barrington at CN's expense. Barrington's petition to reopen was denied on May 15, 2015, and its petition for reconsideration of that decision was denied on November 4, 2015.

The resolution of matters that could arise during the STB's remaining oversight of the transaction cannot be predicted with certainty, and therefore, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the U.S. federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Safety regulation – Canada

The Company's rail operations in Canada are subject to safety regulation by the Federal Minister of Transport under the *Railway Safety Act* as well as the rail portions of other safety-related statutes, which are admistered by Transport Canada. The Company may be required to transport toxic inhalation hazard materials as a result of its common carrier obligations and, as such, is exposed to additional regulatory oversight in Canada. The *Transportation of Dangerous Goods Act,* also administered by Transport Canada, establishes the safety requirements for the transportation of goods classified as dangerous and enables the establishment of regulations for security training and screening of personnel working with dangerous goods, as well as the development of a program to require a transportation security clearance for dangerous goods and that dangerous goods be tracked during transport.

Following a significant derailment involving a non-related short-line railroad within the Province of Quebec ("Lac-Mégantic derailment") on July 6, 2013, several measures have been taken by Transport Canada to strengthen the safety of the railway and transportation of dangerous goods systems in Canada. Amendments to the *Canada Railway Safety Act* and *Transportation of Dangerous Goods Act* include requirements for classification and sampling of crude oil, the provision of yearly aggregate information on the nature and volume of dangerous goods the company transports by rail through designated municipalities, and new speed limit restrictions of 40 miles per hour for certain trains carrying dangerous commodities. Additional requirements for railway companies to conduct route assessments for rail corridors handling significant volumes of dangerous goods and an Emergency Response Assistance Plan in order to ship large volumes of flammable liquids were also put into place. Further to this, Transport Canada issued new rules prohibiting the use of certain DOT-111 tank cars for the transportation of dangerous goods, and announced a new standard for tank cars transporting flammable liquid dangerous goods. The new standard, called TC-117, establishes enhanced construction specifications along with a phase out schedule for DOT-111 and CPC-1232 tank cars.

Transport Canada has also issued new regulations that provide for: (1) administrative monetary penalties that could be issued for violation of the *Railway Safety Act* and its associated regulations, (2) specific standards for new highway-railway crossings and requirements that existing crossings be upgraded to basic safety standards within seven years, as well as safety related data that must be provided by railway companies on an annual basis, and (3) modified requirements for safety management systems for both federally-regulated railway companies as well as local carriers operating on railway lines of federally-regulated carriers. As well, under Bill C-52, which was enacted on June 18, 2015, the Agency now has jurisdiction to order railway companies to compensate municipalities for the costs incurred in responding to fires caused by railway operations.

In compliance with an order issued by Transport Canada, the Railway Association of Canada filed revised rules on behalf of CN and its other member railway companies, respecting the securement of unattended locomotives and crew size requirements, which were approved by the Federal Minister of Transport. Additional rules are under development. CN has reviewed its safety policies for unattended trains and adjusted its safety practices in light of events occurring subsequent to the Lac-Mégantic derailment.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the Canadian federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Safety regulation – U.S.

The Company's U.S. rail operations are subject to safety regulation by the FRA under the *Federal Railroad Safety Act* as well as rail portions of other safety statutes, with the transportation of certain hazardous commodities also governed by regulations promulgated by the Pipeline and Hazardous Materials Safety Administration (PHMSA). The PHMSA requires carriers operating in the U.S. to report annually the volume and route-specific data for cars containing these commodities; conduct a safety and security risk analysis for each used route; identify a commercially practicable alternative route for each used route; and select for use the practical route posing the least safety and security risk. In addition, the Transportation Security Administration (TSA) requires rail carriers to provide upon request, within five minutes for a single car and 30 minutes for multiple cars, location and shipping information on cars on their networks containing toxic inhalation hazard materials and certain radioactive or explosive materials; and ensure the secure, attended transfer of all such cars to and from shippers, receivers and other carriers that will move from, to, or through designated high-threat urban areas.

In the aftermath of the July 2013 Lac-Mégantic derailment, the FRA issued Emergency Order No. 28, Notice No. 1 on August 2, 2013 directing that railroads take specific actions regarding unattended trains transporting specified hazardous materials, including securement of these trains. That same day, the FRA and the PHMSA issued Safety Advisory 2013-06, which made recommendations to railroads on issues including crew staffing practices and operational testing to ensure employees' compliance with securement-related rules, as well as recommendations to shippers of crude oil to be transported by rail. In addition, the railroad industry has acted on its own to enhance rail safety in light of the Lac-Mégantic derailment and fire. Effective August 5, 2013, the Association of American Railroads (AAR) amended the industry's Recommended Railroad Operating Practices for Transportation of Hazardous Materials by expanding the definition of a "key train" (for which heightened operating safeguards are required).

As a result of FRA's Emergency Order No. 28, the Railroad Safety Advisory Committee (RSAC), which was established by the FRA in 1996 to provide advice and recommendations to the FRA on railroad safety matters, was directed with four new tasks: (1) train crew size, (2) operational testing for securement, (3) securement and (4) hazardous material issues. CN was an active participant in all four task groups, which have all now completed their work.

The National Transportation Safety Board (NTSB) issued a series of recommendations to the U.S. Department of Transportation, to address the safety risk of transporting crude oil by rail. Specifically, the NTSB recommended: (1) expanded hazardous materials route planning for railroads to avoid populated and other sensitive areas; (2) development of an FRA/PHMSA audit program to ensure that railroads carrying petroleum products have adequate emergency response capabilities to address worst-case discharges of the product; and (3) audits of shippers and railroads to ensure that they are properly classifying hazardous materials being transported and that they have adequate safety and security plans in place.

The PHMSA issued a final rule on May 8, 2015, in coordination with the FRA, containing new requirements for tank cars moving in high-hazard flammable trains (HHFTs) and related speed restrictions, as well as other requirements, including the use of electronically controlled pneumatic (ECP) brakes. To be used in an HHFT, new tank cars constructed after October 1, 2015 will have to meet enhanced DOT-117 design or performance criteria, while existing tank cars will have to be retrofitted based on a DOT-prescribed schedule. On June 12, 2015, the AAR filed an administrative appeal with PHMSA challenging, among other matters, the agency's requirement for railroads to install ECP brakes on certain HHFTs. On November 6, 2015, PHMSA denied AAR's administrative appeal. However, as part of the surface transportation reauthorization bill known as the *FAST Act,* which was enacted on December 4, 2015, Congress substituted certain modified requirements supported by the industry, and also provided for re-visitation of the ECP brake requirement through an 18-month independent study of the costs, benefits and operational impacts of ECP brakes to be conducted by the Government Accountability Office, in addition to further testing.

Rail safety bills have been introduced in the U.S. Congress following the Lac-Mégantic derailment, however these bills have not advanced due to the fact that much of the substance of rail safety was addressed under the recently enacted *FAST Act*, and by FRA and PHMSA regulatory measures.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the U.S. federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Positive Train Control

On October 16, 2008, the U.S. Congress enacted the *Rail Safety Improvement Act of 2008,* which required all Class I railroads and intercity passenger and commuter railroads to implement a PTC system by December 31, 2015 on mainline track where intercity passenger railroads and commuter railroads operate and where toxic inhalation hazard materials are transported. PTC is a collision avoidance technology intended to override locomotive controls and stop a train before an accident. Pursuant to the *Positive Train Control Enforcement and Implementation Act of 2015* and the *FAST Act* of 2015 (collectively the "PTCEIA"), Congress extended the PTC deadline until December 31, 2018, with the option for a railroad carrier to implement PTC by no later than December 31, 2020. Pursuant to the PTCEIA, the Company submitted its revised implementation plan on January 27, 2016. The Company will also have to file a progress report on March 31, 2016, and annually thereafter until implementation is completed. The Company was progressing its implementation of PTC pursuant to the prior law and will continue to do so under the new timeline, including working with the FRA and other Class I railroads to satisfy the requirements for U.S. network interoperability. In connection with CN's revised PTC implementation plan, CN performed a reassessment of all costs associated with its implementation plan and now estimates that the total implementation cost will be US$1.2 billion, of which US$0.2 billion has been spent as of December 31, 2015. The revised estimated total costs take into consideration the added complexities identified during the detailed review as well as technical challenges anticipated to comply with the regulations and to ensure the interoperability with other railroads and to maintain optimal operating performance.

Security

The Company is subject to statutory and regulatory directives in the U.S. addressing homeland security concerns. In the U.S., safety matters related to security are overseen by the TSA, which is part of the U.S. Department of Homeland Security (DHS) and the PHMSA, which, like the FRA, is part of the U.S. Department of Transportation. Border security falls under the jurisdiction of U.S. Customs and Border Protection (CBP), which is part of the DHS. In Canada, the Company is subject to regulation by the Canada Border Services Agency (CBSA). Matters related to agriculture-related shipments crossing the Canada/U.S. border also fall under the jurisdiction of the U.S. Department of Agriculture (USDA) and the Food and Drug Administration (FDA) in the U.S. and the Canadian Food Inspection Agency (CFIA) in Canada. More specifically, the Company is subject to:

- Border security arrangements, pursuant to an agreement the Company and Canadian Pacific Railway Company entered into with the CBP and the CBSA.
- The CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) program and designation as a low-risk carrier under CBSA's Customs Self-Assessment (CSA) program.
- Regulations imposed by the CBP requiring advance notification by all modes of transportation for all shipments into the U.S. The CBSA is also working on similar requirements for Canada-bound traffic.
- Inspection for imported fruits and vegetables grown in Canada and the agricultural quarantine and inspection (AQI) user fee for all traffic entering the U.S. from Canada.
- Gamma ray screening of cargo entering the U.S. from Canada, and potential security and agricultural inspections at the Canada/U.S. border.

The Company has worked with the AAR to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts by state and local governments seeking to restrict the routings of certain hazardous materials. If such state and local routing restrictions were to go into force, they would be likely to add to security concerns by foreclosing the Company's most optimal and secure transportation routes, leading to increased yard handling, longer hauls, and the transfer of traffic to lines less suitable for moving hazardous materials, while also infringing upon the exclusive and uniform federal oversight over railroad security matters.

While the Company will continue to work closely with the CBSA, CBP, and other Canadian and U.S. agencies, as described above, no assurance can be given that these and future decisions by the U.S., Canadian, provincial, state, or local governments on homeland security matters, legislation on security matters enacted by the U.S. Congress or Parliament, or joint decisions by the industry in response to threats to the North American rail network, will not materially adversely affect the Company's results of operations, or its competitive and financial position.

Vessels

The Company's vessel operations are subject to regulation by the U.S. Coast Guard (USCG) and the Department of Transportation, Maritime Administration, which regulate the ownership and operation of vessels operating on the Great Lakes and in U.S. coastal waters. In addition, the Environmental Protection Agency (EPA) has authority to regulate air emissions from these vessels.

The Federal Maritime Commission, which has authority over oceanborne transport of cargo into and out of the U.S., initiated a Notice of Inquiry in 2011 to examine whether the U.S. Harbor Maintenance Tax (HMT) and other factors may be contributing to the diversion of U.S.-bound cargo to Canadian and Mexican seaports, which could affect CN rail operations. While legislative initiatives have been launched since then, no further action was taken in the Senate or the House of Representatives as of the date of this MD&A.

Transportation of hazardous materials

As a result of its common carrier obligations, the Company is legally required to transport toxic inhalation hazard materials regardless of risk or potential exposure or loss. A train accident involving the transport of these commodities could result in significant costs and claims for personal injury, property damage, and environmental penalties and remediation in excess of insurance coverage for these risks, which may materially adversely affect the Company's results of operations, or its competitive and financial position.

Economic conditions

The Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicality in demand. For example, the current volatility in domestic and global energy markets could impact the demand for transportation services as well as impact the Company's fuel costs and surcharges. In addition, the current volatility in other commodity markets such as coal and iron ore could have an impact on volumes. Many of the bulk commodities the Company transports move offshore and are affected more by global rather than North American economic conditions. Adverse North American and global economic conditions, or economic or industrial restructuring, that affect the producers and consumers of the commodities carried by the Company, including customer insolvency, may have a material adverse effect on the volume of rail shipments and/or revenues from commodities carried by the Company, and thus materially and negatively affect its results of operations, financial position, or liquidity.

Pension funding volatility

The Company's funding requirements for its defined benefit pension plans are determined using actuarial valuations. See the section of this MD&A entitled *Critical accounting estimates – Pensions and other postretirement benefits* for information relating to the funding of the Company's defined benefit pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuations as well as changes to existing federal pension legislation may significantly impact future pension contributions and have a material adverse effect on the funding status of the plans and the Company's results of operations. There can be no assurance that the Company's pension expense and funding of its defined benefit pension plans will not increase in the future and thereby negatively impact earnings and/or cash flow.

Reliance on technology

The Company relies on information technology in all aspects of its business. While the Company has business continuity and disaster recovery plans, as well as other mitigation programs in place, a cyber security attack and significant disruption or failure of its information technology and communications systems could result in service interruptions, safety failures, security violations, regulatory compliance failures or other operational difficulties and compromise corporate information and assets against intruders and, as such, could adversely affect the Company's results of operations, financial position or liquidity. If the Company is unable to acquire or implement new technology, it may suffer a competitive disadvantage, which could also have an adverse effect on the Company's results of operations, financial position or liquidity.

Trade restrictions

Global as well as North American trade conditions, including trade barriers on certain commodities, may interfere with the free circulation of goods across Canada and the U.S.

Terrorism and international conflicts

Potential terrorist actions can have a direct or indirect impact on the transportation infrastructure, including railway infrastructure in North America, and can interfere with the free flow of goods. Rail lines, facilities and equipment could be directly targeted or become indirect casualties, which could interfere with the free flow of goods. International conflicts can also have an impact on the Company's markets. Government response to such events could adversely affect the Company's operations. Insurance premiums could also increase significantly or coverage could become unavailable.

Customer credit risk

In the normal course of business, the Company monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. Although the Company believes there are no significant concentrations of credit risk, economic conditions can affect the Company's customers and can result in an increase to the Company's credit risk and exposure to the business failures of its customers. A widespread deterioration of customer credit and business failures of customers could have a material adverse effect on the Company's results of operations, financial position or liquidity.

Liquidity

Disruptions in the financial markets or deterioration of the Company's credit ratings could hinder the Company's access to external sources of funding to meet its liquidity needs. There can be no assurance that changes in the financial markets will not have a negative effect on the Company's liquidity and its access to capital at acceptable rates.

Supplier concentration

The Company operates in a capital-intensive industry where the complexity of rail equipment limits the number of suppliers available. The supply market could be disrupted if changes in the economy caused any of the Company's suppliers to cease production or to experience capacity or supply shortages. This could also result in cost increases to the Company and difficulty in obtaining and maintaining the Company's rail equipment and materials. Since the Company also has foreign suppliers, international relations, trade restrictions and global economic and other conditions may potentially interfere with the Company's ability to procure necessary equipment. Widespread business failures of, or restrictions on suppliers, could have a material adverse effect on the Company's results of operations or financial position.

Availability of qualified personnel

The Company, like other companies in North America, may experience demographic challenges in the employment levels of its workforce. Changes in employee demographics, training requirements and the availability of qualified personnel, particularly locomotive engineers and trainmen, could negatively impact the Company's ability to meet demand for rail service. The Company expects that approximately 30% of its workforce will be eligible to retire or leave through normal attrition (death, termination, resignation) within the next five-year period. The Company monitors employment levels and seeks to ensure that there is an adequate supply of personnel to meet rail service requirements. However, the Company's efforts to attract and retain qualified personnel may be hindered by specific conditions in the job market. No assurance can be given that demographic or other challenges will not materially adversely affect the Company's results of operations or its financial position.

Fuel costs

The Company, like other railroads, is susceptible to the volatility of fuel prices due to changes in the economy or supply disruptions. Fuel shortages can occur due to refinery disruptions, production quota restrictions, climate, and labor and political instability. Increases in fuel prices or supply disruptions may materially adversely affect the Company's results of operations, financial position or liquidity.

Foreign exchange

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Changes in the exchange rate between the Canadian dollar and other currencies (including the US dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby may adversely affect the Company's revenues and expenses.

Interest rate

The Company is exposed to interest rate risk relating to the Company's long-term debt. The Company mainly issues fixed-rate debt, which exposes the Company to variability in the fair value of the debt. The Company also issues debt with variable interest rates, which exposes the Company to variability in interest expense. Adverse changes to market interest rates may significantly impact the fair value or future cash flows of the Company's financial instruments. There can be no assurance that changes in the market interest rates will not have a negative effect on the Company's liquidity.

Transportation network disruptions

Due to the integrated nature of the North American freight transportation infrastructure, the Company's operations may be negatively affected by service disruptions of other transportation links such as ports and other railroads which interchange with the Company. A significant prolonged service disruption of one or more of these entities could have an adverse effect on the Company's results of operations, financial position or liquidity. Furthermore, deterioration in the cooperative relationships with the Company's connecting carriers could directly affect the Company's operations.

Weather and climate change

The Company's success is dependent on its ability to operate its railroad efficiently. Severe weather and natural disasters, such as extreme cold or heat, flooding, drought, hurricanes and earthquakes, can disrupt operations and service for the railroad, affect the performance of locomotives and rolling stock, as well as disrupt operations for both the Company and its customers. Climate change, including the impact of global warming, has the potential physical risk of increasing the frequency of adverse weather events, which can disrupt the Company's operations, damage its infrastructure or properties, or otherwise have a material adverse effect on the Company's results of operations, financial position or liquidity. In addition, although the Company believes that the growing support for climate change legislation is likely to result in changes to the regulatory framework in Canada and the U.S., it is too early to predict the manner or degree of such impact on the Company at this time. Restrictions, caps, taxes, or other controls on emissions of greenhouse gasses, including diesel exhaust, could significantly increase the Company's capital and operating costs or affect the markets for, or the volume of, the goods the Company carries thereby resulting in a material adverse effect on operations, financial position, results of operations or liquidity. Climate change legislation and regulation could affect CN's customers; make it difficult for CN's customers to produce products in a cost-competitive manner due to increased energy costs; and increase legal costs related to defending and resolving legal claims and other litigation related to climate change.

Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2015, have concluded that the Company's disclosure controls and procedures were effective.

During the fourth quarter ended December 31, 2015, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As of December 31, 2015, management has assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2015, and issued Management's Report on Internal Control over Financial Reporting dated February 1, 2016 to that effect.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2015.

KPMG LLP, an independent registered public accounting firm, has issued an unqualified audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 and has also expressed an unqualified audit opinion on the Company's 2015 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 1, 2016.

Claude Mongeau
President and Chief Executive Officer

February 1, 2016

Luc Jobin
Executive Vice-President and Chief Financial Officer

February 1, 2016

To the Shareholders and Board of Directors of the Canadian National Railway Company

We have audited the accompanying consolidated balance sheets of the Canadian National Railway Company (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and 2014, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 1, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP*

KPMG LLP*

Montreal, Canada
February 1, 2016

* *FCPA auditor, FCA, public accountancy permit No. A106087*

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KPMG Canada provides services to KPMG LLP.

To the Shareholders and Board of Directors of the Canadian National Railway Company

We have audited the Canadian National Railway Company's (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 1, 2016 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP*

Montreal, Canada
February 1, 2016

* *FCPA auditor, FCA, public accountancy permit No. A106087*

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KPMG Canada provides services to KPMG LLP.

Consolidated Statements of Income

In millions, except per share data	*Year ended December 31,*	**2015**	2014	2013
Revenues		**$ 12,611**	$ 12,134	$ 10,575
Operating expenses				
Labor and fringe benefits		**2,406**	2,319	2,182
Purchased services and material		**1,729**	1,598	1,351
Fuel		**1,285**	1,846	1,619
Depreciation and amortization		**1,158**	1,050	980
Equipment rents		**373**	329	275
Casualty and other		**394**	368	295
Total operating expenses		**7,345**	7,510	6,702
Operating income		**5,266**	4,624	3,873
Interest expense		**(439)**	(371)	(357)
Other income *(Note 3)*		**47**	107	73
Income before income taxes		**4,874**	4,360	3,589
Income tax expense *(Note 4)*		**(1,336)**	(1,193)	(977)
Net income		**$ 3,538**	$ 3,167	$ 2,612
Earnings per share *(Note 5)*				
Basic		**$ 4.42**	$ 3.86	$ 3.10
Diluted		**$ 4.39**	$ 3.85	$ 3.09
Weighted-average number of shares *(Note 5)*				
Basic		**800.7**	819.9	843.1
Diluted		**805.1**	823.5	846.1

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

In millions	*Year ended December 31,*	**2015**	2014	2013
Net income		**$ 3,538**	$ 3,167	$ 2,612
Other comprehensive income (loss) *(Note 15)*				
Net gain on foreign currency translation		**249**	75	46
Net change in pension and other postretirement benefit plans *(Note 12)*		**306**	(995)	1,775
Amortization of gain on treasury lock		**-**	(1)	-
Other comprehensive income (loss) before income taxes		**555**	(921)	1,821
Income tax recovery (expense)		**105**	344	(414)
Other comprehensive income (loss)		**660**	(577)	1,407
Comprehensive income		**$ 4,198**	$ 2,590	$ 4,019

See accompanying notes to consolidated financial statements.

In millions	*December 31,*	**2015**	2014
Assets			
Current assets			
Cash and cash equivalents		**$ 153**	$ 52
Restricted cash and cash equivalents *(Note 10)*		**523**	463
Accounts receivable *(Note 6)*		**878**	928
Material and supplies		**355**	335
Other		**244**	215
Total current assets		**2,153**	1,993
Properties *(Note 7)*		**32,624**	28,514
Pension asset *(Note 12)*		**1,305**	882
Intangible and other assets *(Note 8)*		**320**	298
Total assets		**$ 36,402**	$ 31,687
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other *(Note 9)*		**$ 1,556**	$ 1,657
Current portion of long-term debt *(Note 10)*		**1,442**	544
Total current liabilities		**2,998**	2,201
Deferred income taxes *(Note 4)*		**8,105**	6,834
Other liabilities and deferred credits *(Note 11)*		**644**	704
Pension and other postretirement benefits *(Note 12)*		**720**	650
Long-term debt *(Note 10)*		**8,985**	7,828
Shareholders' equity			
Common shares *(Note 13)*		**3,705**	3,718
Common shares in Share Trusts *(Note 13)*		**(100)**	-
Additional paid-in capital *(Note 13)*		**475**	439
Accumulated other comprehensive loss *(Note 15)*		**(1,767)**	(2,427)
Retained earnings		**12,637**	11,740
Total shareholders' equity		**14,950**	13,470
Total liabilities and shareholders' equity		**$ 36,402**	$ 31,687

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Robert Pace
Director

Claude Mongeau
Director

In millions	Number of common shares Outstanding	Number of common shares Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2012	856.8	-	$ 3,892	$ -	$ 216	$ (3,257)	$ 10,167	$ 11,018
Net income							2,612	2,612
Stock-based compensation	1.4		36		4			40
Share repurchase programs *(Note 13)*	(27.6)		(133)				(1,267)	(1,400)
Other comprehensive income *(Note 15)*						1,407		1,407
Dividends ($0.86 per share)							(724)	(724)
Balance at December 31, 2013	830.6	-	3,795	-	220	(1,850)	10,788	12,953
Net income							3,167	3,167
Stock-based compensation	1.2		31		10			41
Modification of stock-based compensation awards *(Note 13)*					209			209
Share repurchase programs *(Note 13)*	(22.4)		(108)				(1,397)	(1,505)
Other comprehensive loss *(Note 15)*						(577)		(577)
Dividends ($1.00 per share)							(818)	(818)
Balance at December 31, 2014	809.4	-	3,718	-	439	(2,427)	11,740	13,470
Net income							3,538	3,538
Stock-based compensation	2.5		95		36		(3)	128
Share repurchase programs *(Note 13)*	(23.3)		(108)				(1,642)	(1,750)
Share purchases by Share Trusts *(Note 13)*	(1.4)	1.4		(100)				(100)
Other comprehensive income *(Note 15)*						660		660
Dividends ($1.25 per share)							(996)	(996)
Balance at December 31, 2015	**787.2**	**1.4**	**$ 3,705**	**$ (100)**	**$ 475**	**$ (1,767)**	**$ 12,637**	**$ 14,950**

See accompanying notes to consolidated financial statements.

In millions — *Year ended December 31,*	**2015**	2014	2013
Operating activities			
Net income	**$ 3,538**	$ 3,167	$ 2,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,158**	1,050	980
Deferred income taxes *(Note 4)*	**600**	416	331
Gain on disposal of property *(Note 3)*	**-**	(80)	(69)
Changes in operating assets and liabilities:			
Accounts receivable	**188**	(59)	32
Material and supplies	**4**	(51)	(38)
Accounts payable and other	**(282)**	-	(245)
Other current assets	**46**	5	13
Pensions and other, net	**(112)**	(67)	(68)
Net cash provided by operating activities	**5,140**	4,381	3,548
Investing activities			
Property additions	**(2,706)**	(2,297)	(1,973)
Disposal of property *(Note 3)*	**-**	173	52
Change in restricted cash and cash equivalents	**(60)**	(15)	73
Other, net	**(61)**	(37)	(4)
Net cash used in investing activities	**(2,827)**	(2,176)	(1,852)
Financing activities			
Issuance of debt *(Note 10)*	**841**	1,022	1,582
Repayment of debt *(Note 10)*	**(752)**	(822)	(1,413)
Net issuance (repayment) of commercial paper *(Note 10)*	**451**	(277)	268
Common shares issued for stock options exercised, excess tax benefits, and other *(Note 14)*	**75**	30	31
Repurchase of common shares *(Note 13)*	**(1,742)**	(1,505)	(1,400)
Purchase of common shares by Share Trusts *(Note 13)*	**(100)**	-	-
Dividends paid	**(996)**	(818)	(724)
Net cash used in financing activities	**(2,223)**	(2,370)	(1,656)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**11**	3	19
Net increase (decrease) in cash and cash equivalents	**101**	(162)	59
Cash and cash equivalents, beginning of year	**52**	214	155
Cash and cash equivalents, end of year	**$ 153**	$ 52	$ 214
Supplemental cash flow information			
Net cash receipts from customers and other	**$ 12,714**	$ 12,029	$ 10,640
Net cash payments for:			
Employee services, suppliers and other expenses	**(6,232)**	(6,333)	(5,558)
Interest	**(432)**	(409)	(344)
Personal injury and other claims *(Note 16)*	**(59)**	(57)	(61)
Pensions *(Note 12)*	**(126)**	(127)	(239)
Income taxes *(Note 4)*	**(725)**	(722)	(890)
Net cash provided by operating activities	**$ 5,140**	$ 4,381	$ 3,548

See accompanying notes to consolidated financial statements.

Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or the "Company," is engaged in the rail and related transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert (British Columbia), Montreal, Halifax, New Orleans and Mobile (Alabama), and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth (Minnesota)/Superior (Wisconsin), Green Bay (Wisconsin), Minneapolis/St. Paul, Memphis, and Jackson (Mississippi), with connections to all points in North America. CN's freight revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 | Summary of significant accounting policies

Basis of presentation

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries and variable interest entities for which the Company is the primary beneficiary. The Company is the primary beneficiary of the Employee Benefit Plan Trusts ("Share Trusts") as the Company funds the Share Trusts. The Company's investments in which it has significant influence are accounted for using the equity method and all other investments are accounted for using the cost method.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to income taxes, depreciation, pensions and other postretirement benefits, personal injury and other claims, and environmental matters, based upon available information. Actual results could differ from these estimates.

Revenues

Freight revenues are recognized using the percentage of completed service method based on the transit time of freight as it moves from origin to destination. The allocation of revenues between reporting periods is based on the relative transit time in each period with expenses being recorded as incurred. Revenues related to non-rail transportation services are recognized as service is performed or as contractual obligations are met. Revenues are presented net of taxes collected from customers and remitted to governmental authorities.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net deferred income tax asset or liability is included in the computation of Net income or Other comprehensive income (loss). Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Earnings per share

Basic earnings per share is calculated based on the weighted-average number of common shares outstanding over each period. The weighted-average number of basic shares outstanding excludes shares held in the Share Trusts and includes fully vested equity settled stock-based compensation awards excluding stock options. Diluted earnings per share is calculated based on the weighted-average number of diluted shares outstanding using the treasury stock method. Included in the diluted earnings per share calculation are the assumed issuances of non-vested stock-based compensation awards.

Foreign currency

All of the Company's United States (U.S.) subsidiaries use the US dollar as their functional currency. Accordingly, the U.S. subsidiaries' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (loss).

The Company designates the US dollar-denominated long-term debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. Accordingly, foreign exchange gains and losses, from the dates of designation, on the translation of the US dollar-denominated long-term debt are also included in Other comprehensive income (loss).

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

Restricted cash and cash equivalents

The Company has the option, under its bilateral letter of credit facility agreements with various banks, to pledge collateral in the form of cash and cash equivalents for a minimum term of one month, equal to at least the face value of the letters of credit issued. Restricted cash and cash equivalents are shown separately on the balance sheet and include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

Accounts receivable

Accounts receivable are recorded at cost net of billing adjustments and an allowance for doubtful accounts. The allowance for doubtful accounts is based on expected collectability and considers historical experience as well as known trends or uncertainties related to account collectability. When a receivable is deemed uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to bad debt expense in Casualty and other in the Consolidated Statement of Income.

Material and supplies

Material and supplies, which consist mainly of rail, ties, and other items for construction and maintenance of property and equipment, as well as diesel fuel, are valued at weighted-average cost.

Properties

Accounting policy for capitalization of costs

The Company's railroad operations are highly capital intensive. The Company's properties mainly consist of homogeneous or network-type assets such as rail, ties, ballast and other structures, which form the Company's Track and roadway properties, and Rolling stock. The Company's capital expenditures are for the replacement of existing assets and for the purchase or construction of new assets to enhance operations or provide new service offerings to customers. A large portion of the Company's capital expenditures are for self-constructed properties including the replacement of existing track and roadway assets and track line expansion, as well as major overhauls and large refurbishments of rolling stock.

Expenditures are generally capitalized if they extend the life of the asset or provide future benefits such as increased revenue-generating capacity, functionality, or physical or service capacity. The Company has a process in place to determine whether its capital programs qualify for capitalization. For Track and roadway properties, the Company establishes basic capital programs to replace or upgrade the track infrastructure assets which are capitalized if they meet the capitalization criteria.

In addition, for Track and roadway properties, expenditures that meet the minimum level of activity as defined by the Company are also capitalized as follows:

- *grading:* installation of road bed, retaining walls, drainage structures;
- *rail and related track material:* installation of 39 or more continuous feet of rail;
- *ties:* installation of 5 or more ties per 39 feet; and
- *ballast:* installation of 171 cubic yards of ballast per mile.

For purchased assets, the Company capitalizes all costs necessary to make the asset ready for its intended use. Expenditures that are capitalized as part of self-constructed properties include direct material, labor, and contracted services, as well as other allocated costs which are not charged directly to capital projects. These allocated costs include, but are not limited to, fringe benefits, small tools and supplies, maintenance on equipment used on projects and project supervision. The Company reviews and adjusts its allocations, as required, to reflect the actual costs incurred each year.

For the rail asset, the Company capitalizes the costs of rail grinding which consists of restoring and improving the rail profile and removing irregularities from worn rail to extend the service life. The service life of the rail asset is increased incrementally as rail grinding is performed thereon, and as such, the costs incurred are capitalized given that the activity extends the service life of the rail asset beyond its original or current condition as additional gross tons can be carried over the rail for its remaining service life.

For the ballast asset, the Company engages in shoulder ballast undercutting that consists of removing some or all of the ballast, which has deteriorated over its service life, and replacing it with new ballast. When ballast is installed as part of a shoulder ballast undercutting project, it represents the addition of a new asset and not the repair or maintenance of an existing asset. As such, the Company capitalizes expenditures related to shoulder ballast undercutting given that an existing asset is retired and replaced with a new asset. Under the group method of accounting for properties, the deteriorated ballast is retired at its average cost measured using the quantities of new ballast added.

Costs of deconstruction and removal of replaced assets, referred to herein as dismantling costs, are distinguished from installation costs for self-constructed properties based on the nature of the related activity. For Track and roadway properties, employees concurrently perform dismantling and installation of new track and roadway assets and, as such, the Company estimates the amount of labor and other costs that are related to dismantling. The Company determines dismantling costs based on an analysis of the track and roadway installation process.

Expenditures relating to the Company's properties that do not meet the Company's capitalization criteria are considered normal repairs and maintenance and are expensed. For Track and roadway properties, such expenditures include but are not limited to spot tie replacement, spot or broken rail replacement, physical track inspection for detection of rail defects and minor track corrections, and other general maintenance of track infrastructure.

Accounting policy for depreciation

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. The cost of properties, including those under capital leases, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated service lives, measured in years, except for rail which is measured in millions of gross ton miles. The Company follows the group method of depreciation whereby a single composite depreciation rate is applied to the gross investment in a class of similar assets, despite small differences in the service life or salvage value of individual property units within the same asset class. The Company uses approximately 40 different depreciable asset classes.

1 | Summary of significant accounting policies
continued

For all depreciable assets, the depreciation rate is based on the estimated service lives of the assets. Assessing the reasonableness of the estimated service lives of properties requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. The Company's U.S. properties are subject to comprehensive depreciation studies as required by the Surface Transportation Board (STB) and are conducted by external experts. Depreciation studies for Canadian properties are not required by regulation and are conducted internally. Studies are performed on specific asset groups on a periodic basis. Changes in the estimated service lives of the assets and their related composite depreciation rates are implemented prospectively.

The service life of the rail asset is based on expected future usage of the rail in its existing condition, determined using railroad industry research and testing (based on rail characteristics such as weight, curvature and metallurgy), less the rail asset's usage to date. The annual composite depreciation rate for rail assets is determined by dividing the estimated annual number of gross tons carried over the rail by the estimated service life of the rail measured in millions of gross ton miles. The Company amortizes the cost of rail grinding over the remaining life of the rail asset, which includes the incremental life extension generated by rail grinding.

Intangible assets

Intangible assets consist mainly of customer contracts and relationships assumed through past acquisitions and are being amortized on a straight-line basis over 40 to 50 years.

The Company reviews the carrying amounts of intangible assets held and used whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

Accounts receivable securitization

Based on the structure of its accounts receivable securitization program, the Company accounts for the proceeds received as a secured borrowing.

Pensions

Pension costs are determined using actuarial methods. Net periodic benefit cost is charged to income and includes:

- the cost of pension benefits provided in exchange for employees' services rendered during the year;
- the interest cost of pension obligations;
- the expected long-term return on pension fund assets;
- the amortization of prior service costs and amendments over the expected average remaining service life of the employee group covered by the plans; and
- the amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the beginning of year balances of the projected benefit obligation or market-related value of plan assets, over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

Postretirement benefits other than pensions

The Company accrues the cost of postretirement benefits other than pensions using actuarial methods. These benefits, which are funded as they become due, include life insurance programs, medical benefits and, for a closed group of employees, free rail travel benefits.

The Company amortizes the cumulative net actuarial gains and losses in excess of 10% of the projected benefit obligation at the beginning of the year, over the expected average remaining service life of the employee group covered by the plan.

Stock-based compensation

For equity settled awards, stock-based compensation costs are accrued over the requisite service period based on the fair value of the awards at the grant date. The fair value of performance share unit (PSU) awards is dependent on the type of PSU award. The fair value of PSU-ROIC awards is determined using a lattice-based model and the fair value of PSU-TSR awards is determined using a Monte Carlo simulation model. The fair value of deferred share unit (DSU) awards is determined using the stock price at the grant date. The fair value of stock option awards is determined using the Black-Scholes option-pricing model. For cash settled awards, the fair value of the awards are accrued over the requisite service period based on the fair value determined at each period-end.

Personal injury and other claims

In Canada, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates on a discounted basis of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs.

In the U.S., the Company accrues the expected cost for personal injury, property damage and occupational disease claims, based on actuarial estimates of their ultimate cost on an undiscounted basis.

For all other legal actions in Canada and the U.S., the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

Environmental expenditures

Environmental expenditures that relate to current operations, or to an existing condition caused by past operations, are expensed unless they can contribute to current or future operations. Environmental liabilities are recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective shares of the liability. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable and collectability is reasonably assured.

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its interest rate and foreign currency exposures. Derivative instruments are recorded on the balance sheet at fair value and the changes in fair value are recorded in Net income or Other comprehensive income (loss) depending on the nature and effectiveness of the hedge transaction. Income and expense related to hedged derivative financial instruments are recorded in the same category as that generated by the underlying asset or liability.

2 | Recent accounting pronouncements

The following recent Accounting Standards Updates (ASUs) issued by FASB were adopted by the Company during the current period:

Standard	Description	Impact
ASU 2015-17 Income Taxes, Balance Sheet Classification of Deferred Taxes	Simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a statement of financial position, thus eliminating the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts.	The Company adopted this standard during the fourth quarter of 2015 on a retrospective basis. The current deferred income tax asset was reclassified as noncurrent and netted against the related noncurrent deferred income tax liability in the amount of $58 million and $68 million as at December 31, 2015 and 2014, respectively.
ASU 2015-03 Interest – Imputation of Interest	Simplifies the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a deduction from the carrying amount of debt.	The Company adopted this standard during the fourth quarter of 2015 on a retrospective basis. Debt issuance costs have been reclassified from assets to Long-term debt in the amount of $42 million and $37 million as at December 31, 2015 and 2014, respectively.

The following recent ASUs issued by FASB have an effective date after December 31, 2015 and have not been adopted by the Company:

Standard	Description	Impact	Effective date (1)
ASU 2016-01 Financial Instruments – Overall	Addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments require equity investments (except those accounted for under the equity method of accounting or those resulting in consolidation) to be measured at fair value with changes in fair value recognized in net income. The new guidance can be applied by means of a cumulative effect adjustment to the balance sheet at the beginning of the year of adoption.	The Company is evaluating the effect that the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017.
ASU 2014-09 Revenue from Contracts with Customers	Establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers. The basis of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance can be applied using a retrospective or the cumulative effect transition method.	The Company is evaluating the effect that the ASU will have on its Consolidated Financial Statements, if any; however, no significant impact is expected.	December 15, 2017. Early adoption is permitted.

(1) Effective for annual and interim reporting periods beginning after the stated date.

3 | Other income

In millions Year ended December 31,	**2015**	2014	2013
Gain on disposal of property [(1)]	**$ -**	$ 99	$ 64
Gain on disposal of land	**52**	21	19
Other [(2)]	**(5)**	(13)	(10)
Total other income	**$ 47**	$ 107	$ 73

(1) In addition to the disposals of property described herein, 2014 includes other gains of $19 million and 2013 includes other losses of $5 million.

(2) Includes foreign exchange gains and losses related to foreign exchange forward contracts and the re-measurement of other US dollar-denominated monetary assets and liabilities. See Note 17 – Financial instruments.

Disposal of property

2014

Guelph

On September 4, 2014, the Company closed a transaction with Metrolinx to sell a segment of the Guelph subdivision located between Georgetown and Kitchener, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Guelph"), for cash proceeds of $76 million before transaction costs. The Company did not meet all the conditions to record the sale under the full accrual method for real estate transactions as it continues to have substantial continuing involvement on the Guelph. The Company will have relinquished substantially all of the risks and rewards of ownership on the Guelph in 2018, at which time the gain on the sale is expected to be recognized.

Deux-Montagnes

On February 28, 2014, the Company closed a transaction with Agence Métropolitaine de Transport to sell the Deux-Montagnes subdivision between Saint-Eustache and Montreal, Quebec, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), for cash proceeds of $97 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Deux-Montagnes at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of $80 million ($72 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

2013

Exchange of easements

On June 8, 2013, the Company entered into an agreement with another Class I railroad to exchange perpetual railroad operating easements including the track and roadway assets on specific rail lines (collectively the "exchange of easements") without monetary consideration. The Company accounted for the exchange of easements at fair value pursuant to FASB ASC 845, *Nonmonetary Transactions*. The transaction resulted in a gain on exchange of easements of $29 million ($18 million after-tax) that was recorded in Other income.

Lakeshore West

On March 19, 2013, the Company entered into an agreement with Metrolinx to sell a segment of the Oakville subdivision in Oakville and Burlington, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Lakeshore West"), for cash proceeds of $52 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Lakeshore West at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of $40 million ($36 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

4 | Income taxes

The Company's consolidated effective income tax rate differs from the Canadian, or domestic, statutory federal tax rate. The effective tax rate is affected by recurring items such as tax rates in provincial, U.S. federal, state and other foreign jurisdictions and the proportion of income earned in those jurisdictions. The effective tax rate is also affected by discrete items such as income tax rate enactments and lower tax rates on capital dispositions that may occur in any given year.

The following table provides a reconciliation of income tax expense:

In millions *Year ended December 31,*	**2015**	2014	2013
Canadian statutory federal tax rate	**15%**	15%	15%
Income tax expense at the Canadian statutory federal tax rate	**$ 731**	$ 654	$ 538
Income tax expense (recovery) resulting from:			
Provincial and foreign taxes (1)	**550**	531	423
Deferred income tax adjustments due to rate enactments (2)	**42**	-	24
Gain on disposals (3)	**(11)**	(19)	(9)
Other (4)	**24**	27	1
Income tax expense	**$ 1,336**	$ 1,193	$ 977
Cash payments for income taxes	**$ 725**	$ 722	$ 890

(1) Includes mainly the impact of Canadian provincial taxes and U.S. federal and state taxes.

(2) Includes the net income tax expense resulting from the enactment of provincial corporate tax rates.

(3) Relates to the permanent differences arising from lower capital gain tax rates on the gain on disposal of the Company's properties in Canada.

(4) Includes adjustments relating to the resolution of matters pertaining to prior years' income taxes, including net recognized tax benefits, and other items.

The following table provides tax information on a domestic and foreign basis:

In millions *Year ended December 31,*	**2015**	2014	2013
Income before income taxes			
Domestic	**$ 3,437**	$ 3,042	$ 2,445
Foreign	**1,437**	1,318	1,144
Total income before income taxes	**$ 4,874**	$ 4,360	$ 3,589
Current income tax expense			
Domestic	**$ 640**	$ 522	$ 404
Foreign	**96**	255	242
Total current income tax expense	**$ 736**	$ 777	$ 646
Deferred income tax expense			
Domestic	**$ 328**	$ 271	$ 279
Foreign	**272**	145	52
Total deferred income tax expense	**$ 600**	$ 416	$ 331

The following table provides the significant components of deferred income tax assets and liabilities:

In millions *December 31,*	**2015**	2014
Deferred income tax assets		
Pension liability	**$ 147**	$ 120
Personal injury and legal claims	**64**	60
Environmental and other reserves	**179**	173
Other postretirement benefits liability	**82**	80
Unrealized foreign exchange losses	**124**	-
Net operating losses and tax credit carryforwards (1)	**26**	20
Total deferred income tax assets	**$ 622**	$ 453
Deferred income tax liabilities		
Properties	**$ 8,303**	$ 6,946
Pension asset	**348**	232
Unrealized foreign exchange gains (2)	**-**	68
Other (2)	**76**	41
Total deferred income tax liabilities	**$ 8,727**	$ 7,287
Total net deferred income tax liability	**$ 8,105**	$ 6,834
Total net deferred income tax liability		
Domestic	**$ 3,074**	$ 2,841
Foreign	**5,031**	3,993
Total net deferred income tax liability	**$ 8,105**	$ 6,834

(1) Net operating losses and tax credit carryforwards will expire between the years 2018 and 2035.

(2) Certain 2014 balances have been reclassified to conform with the 2015 presentation.

On an annual basis, the Company assesses the need to establish a valuation allowance for its deferred income tax assets, and if it is deemed more likely than not that its deferred income tax assets will not be realized, a valuation allowance is recorded. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred income tax liabilities, the available carryback and carryforward periods, and projected future taxable income in making this assessment. As at December 31, 2015, in order to fully realize all of the deferred income tax assets, the Company will need to generate future taxable income of approximately $2.2 billion and, based upon the level of historical taxable income and projections of future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. Management has assessed the impacts of the current economic environment and concluded there are no significant impacts to its assertions for the realization of deferred income tax assets. The Company has not recognized a deferred income tax asset of $234 million as at December 31, 2015 ($270 million as

4 | Income taxes

continued

at December 31, 2014) on the unrealized foreign exchange loss recorded in Accumulated other comprehensive loss relating to its net investment in U.S. subsidiaries, as the Company does not expect this temporary difference to reverse in the foreseeable future.

The following table provides a reconciliation of unrecognized tax benefits on the Company's domestic and foreign tax positions:

In millions *Year ended December 31,*	**2015**	2014	2013
Gross unrecognized tax benefits at beginning of year	**$ 35**	$ 30	$ 36
Increases for:			
Tax positions related to the current year	**4**	3	2
Tax positions related to prior years	**8**	3	4
Decreases for:			
Tax positions related to prior years	**-**	-	(4)
Settlements	**(14)**	-	(8)
Lapse of the applicable statute of limitations	**(6)**	(1)	-
Gross unrecognized tax benefits at end of year	**$ 27**	$ 35	$ 30
Adjustments to reflect tax treaties and other arrangements	**(8)**	(6)	(5)
Net unrecognized tax benefits at end of year	**$ 19**	$ 29	$ 25

As at December 31, 2015, the total amount of gross unrecognized tax benefits was $27 million, before considering tax treaties and other arrangements between taxation authorities. The amount of net unrecognized tax benefits as at December 31, 2015 was $19 million. If recognized, all of the net unrecognized tax benefits as at December 31, 2015 would affect the effective tax rate. The Company believes that it is reasonably possible that approximately $5 million of the net unrecognized tax benefits as at December 31, 2015 related to various federal, state, and provincial income tax matters, each of which are individually insignificant, may be recognized over the next twelve months as a result of settlements and a lapse of the applicable statute of limitations.

The Company recognizes accrued interest and penalties related to gross unrecognized tax benefits in Income tax expense in the Company's Consolidated Statement of Income. The Company recognized approximately $1 million, $1 million and $2 million in accrued interest and penalties during the years ended December 31, 2015, 2014 and 2013, respectively. The Company had approximately $4 million and $6 million of accrued interest and penalties as at December 31, 2015 and 2014, respectively.

In Canada, the Company's federal and provincial income tax returns filed for the years 2011 to 2014 remain subject to examination by the taxation authorities. An examination of the Company's federal income tax returns for the years 2011 and 2012 is currently in progress and is expected to be completed during 2016. In the U.S., the federal income tax returns filed for the years 2012 to 2014 and the state income tax returns filed for the years 2011 to 2014 remain subject to examination by the taxation authorities. Examinations of certain state income tax returns by the state taxation authorities are currently in progress. The Company does not anticipate any significant impacts to its results of operations or financial position as a result of the final resolutions of such matters.

5 | Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

In millions, except per share data *Year ended December 31,*	**2015**	2014	2013
Net income	**$ 3,538**	$ 3,167	$ 2,612
Weighted-average basic shares outstanding	**800.7**	819.9	843.1
Dilutive effect of stock-based compensation	**4.4**	3.6	3.0
Weighted-average diluted shares outstanding	**805.1**	823.5	846.1
Basic earnings per share	**$ 4.42**	$ 3.86	$ 3.10
Diluted earnings per share	**$ 4.39**	$ 3.85	$ 3.09

6 | Accounts receivable

In millions *December 31,*	**2015**	2014
Freight	**$ 705**	$ 777
Non-freight	**180**	160
Gross accounts receivable	**885**	937
Allowance for doubtful accounts	**(7)**	(9)
Net accounts receivable	**$ 878**	$ 928

7 | Properties

		December 31, 2015			December 31, 2014		
In millions	Depreciation rate	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Properties including capital leases							
Track and roadway [(1)]	**2%**	**$ 33,941**	**$ 7,830**	**$ 26,111**	$ 29,995	$ 7,332	$ 22,663
Rolling stock	**5%**	**6,216**	**2,362**	**3,854**	5,552	2,107	3,445
Buildings	**2%**	**1,791**	**624**	**1,167**	1,545	560	985
Information technology [(2)]	**10%**	**1,067**	**567**	**500**	1,068	492	576
Other	**4%**	**1,812**	**820**	**992**	1,549	704	845
Total properties including capital leases		**$ 44,827**	**$ 12,203**	**$ 32,624**	$ 39,709	$ 11,195	$ 28,514
Capital leases included in properties							
Track and roadway [(3)]		**$ 415**	**$ 66**	**$ 349**	$ 417	$ 63	$ 354
Rolling stock		**748**	**301**	**447**	808	292	516
Buildings		**109**	**26**	**83**	109	23	86
Other		**122**	**36**	**86**	108	29	79
Total capital leases included in properties		**$ 1,394**	**$ 429**	**$ 965**	$ 1,442	$ 407	$ 1,035

(1) Includes $2,487 million of land as at December 31, 2015 ($2,079 million as at December 31, 2014).

(2) The Company capitalized $85 million of costs for internally developed software in 2015 ($102 million in 2014).

(3) Includes $108 million of right-of-way access as at December 31, 2015 ($108 million as at December 31, 2014).

8 | Intangible and other assets

In millions *December 31,*	**2015**	2014
Deferred and long-term receivables	**$ 144**	$ 141
Intangible assets	**71**	62
Investments [(1)]	**69**	58
Other [(2)]	**36**	37
Total intangible and other assets	**$ 320**	$ 298

(1) As at December 31, 2015, the Company had $56 million ($47 million as at December 31, 2014) of investments accounted for under the equity method and $13 million ($11 million as at December 31, 2014) of investments accounted for under the cost method. See Note 17 - Financial instruments for the fair value of Investments.

(2) As a result of the retrospective adoption of a new accounting standard in the fourth quarter of 2015, debt issuance costs have been reclassified from assets to Long-term debt. See Note 2 - Recent accounting pronouncements for additional information.

9 | Accounts payable and other

In millions *December 31,*	**2015**	2014
Trade payables	**$ 391**	$ 464
Payroll-related accruals	**287**	317
Income and other taxes	**254**	208
Accrued charges	**192**	166
Accrued interest	**122**	95
Personal injury and other claims provisions *(Note 16)*	**51**	48
Environmental provisions *(Note 16)*	**51**	45
Stock-based compensation liability *(Note 14)*	**39**	106
Other postretirement benefits liability *(Note 12)*	**18**	17
Other	**151**	191
Total accounts payable and other	**$ 1,556**	$ 1,657

10 | Long-term debt

In millions		Maturity	US dollar-denominated amount	*December 31,* 2015	2014
Notes and debentures (1)					
Canadian National series:					
-	2-year floating rate notes	Nov. 6, 2015	US$ 350	**$ -**	$ 406
5.80%	10-year notes (2)	June 1, 2016	250	**346**	290
1.45%	5-year notes (2)	Dec. 15, 2016	300	**415**	348
-	3-year floating rate notes (3)	Nov. 14, 2017	250	**346**	290
5.85%	10-year notes (2)	Nov. 15, 2017	250	**346**	290
5.55%	10-year notes (2)	May 15, 2018	325	**450**	377
6.80%	20-year notes (2)	July 15, 2018	200	**277**	232
5.55%	10-year notes (2)	Mar. 1, 2019	550	**761**	638
2.75%	7-year notes (2)	Feb. 18, 2021	-	**250**	250
2.85%	10-year notes (2)	Dec. 15, 2021	400	**554**	464
2.25%	10-year notes (2)	Nov. 15, 2022	250	**346**	290
7.63%	30-year debentures	May 15, 2023	150	**208**	174
2.95%	10-year notes (2)	Nov. 21, 2024	350	**484**	406
2.80%	10-year notes (2)	Sep. 22, 2025	-	**350**	-
6.90%	30-year notes (2)	July 15, 2028	475	**657**	551
7.38%	30-year debentures (2)	Oct. 15, 2031	200	**277**	232
6.25%	30-year notes (2)	Aug. 1, 2034	500	**692**	581
6.20%	30-year notes (2)	June 1, 2036	450	**623**	522
6.71%	Puttable Reset Securities PURS[SM] (2)	July 15, 2036	250	**346**	290
6.38%	30-year debentures (2)	Nov. 15, 2037	300	**415**	348
3.50%	30-year notes (2)	Nov. 15, 2042	250	**346**	290
4.50%	30-year notes (2)	Nov. 7, 2043	250	**346**	290
3.95%	30-year notes (2)	Sep. 22, 2045	-	**400**	-
4.00%	50-year notes (2)	Sep. 22, 2065	-	**100**	-
Illinois Central series:					
7.70%	100-year debentures	Sep. 15, 2096	125	**173**	145
BC Rail series:					
Non-interest bearing 90-year subordinated notes (4)		July 14, 2094	-	**842**	842
Total notes and debentures				**$ 10,350**	$ 8,546
Other					
Commercial paper				**458**	-
Accounts receivable securitization				**-**	50
Capital lease obligations				**522**	670
Total debt, gross				**11,330**	9,266
Net unamortized discount and debt issuance costs (4) (5)				**(903)**	(894)
Total debt (6)				**10,427**	8,372
Less: Current portion of long-term debt				**1,442**	544
Total long-term debt				**$ 8,985**	$ 7,828

(1) The Company's notes, debentures and revolving credit facility are unsecured.

(2) The fixed rate debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

(3) These floating rate notes bear interest at the three-month London Interbank Offered Rate (LIBOR) plus 0.17%. The interest rate as at December 31, 2015 was 0.53% (0.40% as at December 31, 2014).

(4) The Company records these notes as a discounted debt of $10 million as at December 31, 2015 ($9 million as at December 31, 2014) using an imputed interest rate of 5.75% (5.75% as at December 31, 2014). The discount of $832 million ($833 million as at December 31, 2014) is included in Net unamortized discount and debt issuance costs.

(5) As a result of the retrospective adoption of a new accounting standard in the fourth quarter of 2015, debt issuance costs have been reclassified from assets to Long-term debt. See Note 2 - Recent accounting pronouncements for additional information.

(6) See Note 17 - Financial instruments for the fair value of debt.

Revolving credit facility

The Company has an $800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the facility amount, up to a maximum of $1.3 billion, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders. The Company exercised such option and on March 12, 2015, the expiry date of the agreement was extended by one year to May 5, 2020. The credit facility is available for general corporate purposes, including backstopping the Company's commercial paper programs, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offered Rate (LIBOR), plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at December 31, 2015 and 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the years ended December 31, 2015 and 2014.

Commercial paper

The Company has a commercial paper program in Canada and a new commercial paper program was established in the U.S. during the second quarter of 2015. Both programs are backstopped by the Company's revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent, on a combined basis. As at December 31, 2015, the Company had total commercial paper borrowings of US$331 million ($458 million) (nil as at December 31, 2014) at a weighted-average interest rate of 0.41% presented in Current portion of long-term debt on the Consolidated Balance Sheet. The Company's commercial paper has a maturity less than 90 days.

The following table presents the issuances and repayments of commercial paper:

In millions Year ended December 31,	**2015**	2014	2013
Issuances of commercial paper	**$ 2,624**	$ 2,443	$ 3,255
Repayments of commercial paper	**(2,173)**	(2,720)	(2,987)
Net issuance (repayment) of commercial paper	**$ 451**	$ (277)	$ 268

Accounts receivable securitization program

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. On June 18, 2015, the Company extended the term of its agreement by one year to February 1, 2018. As at December 31, 2015, the Company had no proceeds ($50 million at a weighted-average interest rate of 1.24%, which was secured by, and limited to, $56 million of accounts receivable as at December 31, 2014) received under the accounts receivable securitization program in the Current portion of long-term debt on the Consolidated Balance Sheet.

Bilateral letter of credit facilities

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 12, 2015, the Company extended the expiry date of its agreements by one year to April 28, 2018. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at December 31, 2015, the Company had letters of credit drawn of $551 million ($487 million as at December 31, 2014) from a total committed amount of $575 million ($511 million as at December 31, 2014) by the various banks. As at December 31, 2015, cash and cash equivalents of $523 million ($463 million as at December 31, 2014) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Capital lease obligations

The Company had no acquisitions of assets through equipment leases in 2015 and 2014. Interest rates for capital lease obligations range from 0.7% to 7.3% with maturity dates in the years 2016 through 2037. The imputed interest on these leases amounted to $118 million as at December 31, 2015 ($145 million as at December 31, 2014). The capital lease obligations are secured by properties with a net carrying amount of $603 million as at December 31, 2015 ($668 million as at December 31, 2014).

Long-term debt maturities

The following table provides the long-term debt maturities, including capital lease repayments on debt outstanding as at December 31, 2015, for the next five years and thereafter:

In millions	**Capital leases**	**Debt**	**Total**
2016 (1)	$ 223	$ 1,219	$ 1,442
2017	174	684	858
2018	9	720	729
2019	10	755	765
2020	16	-	16
2021 and thereafter	90	6,527	6,617
Total	$ 522	$ 9,905	$ 10,427

(1) *Current portion of long-term debt.*

Amount of US dollar-denominated debt

In millions December 31,	**2015**	2014
Notes and debentures	**US $ 6,075**	US $ 6,425
Commercial paper	**331**	-
Capital lease obligations	**274**	448
Total amount of US dollar-denominated debt in US$	**US $ 6,680**	US $ 6,873
Total amount of US dollar-denominated debt in C$	**$ 9,245**	$ 7,973

11 | Other liabilities and deferred credits

In millions December 31,		2015		2014
Personal injury and other claims provisions *(Note 16)* [(1)]	**$**	**245**	$	250
Stock-based compensation liability *(Note 14)* [(1)]		**63**		91
Environmental provisions *(Note 16)* [(1)]		**59**		69
Deferred credits and other		**277**		294
Total other liabilities and deferred credits	**$**	**644**	$	704

(1) See Note 9 – Accounts payable and other for the related current portion.

12 | Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Senior and executive management employees subject to certain minimum service and age requirements, are also eligible for an additional retirement benefit under their Special Retirement Stipend Agreements, the Supplemental Executive Retirement Plan or the Defined Contribution Supplemental Executive Retirement Plan.

The Company also offers postretirement benefits to certain employees providing life insurance, medical benefits and, for a closed group of employees, free rail travel benefits during retirement. These postretirement benefits are funded as they become due. The information in the tables that follow pertains to all of the Company's defined benefit plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan, unless otherwise specified.

Description of the CN Pension Plan

The CN Pension Plan is a contributory defined benefit pension plan that covers the majority of CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain/loss sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Company's pension trust funds (including the CN Pension Trust Fund). As Trustee, the trust company performs certain duties, which include holding legal title to the assets of the CN Pension Trust Fund and ensuring that the Company, as Administrator, complies with the provisions of the CN Pension Plan and the related legislation. The Company utilizes a measurement date of December 31 for the CN Pension Plan.

Funding policy

Employee contributions to the CN Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, the *Pension Benefits Standards Act, 1985*, including amendments and regulations thereto, and such contributions follow minimum and maximum thresholds as determined by actuarial valuations. Actuarial valuations are generally required on an annual basis for all Canadian plans, or when deemed appropriate by the Office of the Superintendent of Financial Institutions. These actuarial valuations are prepared in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. Actuarial valuations are also required annually for the Company's U.S. qualified pension plans.

The Company's most recently filed actuarial valuations for its Canadian registered pension plans conducted as at December 31, 2014 indicated a funding excess on a going concern basis of approximately $1.9 billion and a funding deficit on a solvency basis of approximately $0.7 billion, calculated using the three-year average of the plans' hypothetical wind-up ratio in accordance with the *Pension Benefit Standards Regulations, 1985*. The federal pension legislation requires funding deficits, as calculated under current pension regulations, to be paid over a number of years. Alternatively, a letter of credit can be subscribed to fulfill required solvency deficit payments.

The Company's next actuarial valuations for its Canadian plans required as at December 31, 2015 will be performed in 2016. These actuarial valuations are expected to identify a funding excess on a going concern basis of approximately $2.3 billion, while on a solvency basis a funding excess of approximately $0.2 billion is expected. Based on the anticipated results of these valuations, the Company expects to make total cash contributions of approximately $115 million for all pension plans in 2016. As at February 1, 2016 the Company had contributed $60 million to its defined benefit pension plans for 2016.

Plan assets

The assets of the Company's various Canadian defined benefit pension plans are primarily held in separate trust funds ("Trusts") which are diversified by asset type, country and investment strategies. Each year, the CN Board of Directors reviews and confirms or amends the Statement of Investment Policies and Procedures (SIPP) which includes the plans' long-term asset mix target and related benchmark indices ("Policy"). This Policy is based on a long-term forward-looking view of the world economy, the dynamics of the plans' benefit obligations, the market return expectations of each asset class and the current state of financial markets.

Annually, the CN Investment Division ("Investment Manager"), a division of the Company created to invest and administer the assets of the plans, proposes a short-term asset mix target ("Strategy") for the coming year, which is expected to differ from the Policy, because of current economic and market conditions and expectations. The Investment Committee of the Board ("Committee") regularly compares the actual asset mix to the Policy and Strategy and compares the actual performance of the Company's pension plans to the performance of the benchmark indices.

The Company's 2015 Policy and actual asset allocation for the Company's pension plans based on fair value are as follows:

		Actual plan asset allocation	
	Policy	**2015**	2014
Cash and short-term investments	3%	**2%**	3%
Bonds and mortgages	37%	**30%**	29%
Equities	45%	**40%**	39%
Real estate	4%	**2%**	2%
Oil and gas	7%	**5%**	8%
Infrastructure	4%	**7%**	5%
Absolute return	-	**11%**	10%
Risk-based allocation	-	**3%**	4%
Total	100%	**100%**	100%

The Committee's approval is required for all major investments in illiquid securities. The SIPP allows for the use of derivative financial instruments to implement strategies, hedge, and adjust existing or anticipated exposures. The SIPP prohibits investments in securities of the Company or its subsidiaries. Investments held in the Company's pension plans consist mainly of the following:

- Cash and short-term investments consist primarily of highly liquid securities which ensure adequate cash flows are available to cover near-term benefit payments. Short-term investments are mainly obligations issued by Canadian chartered banks.
- Bonds include bond instruments, issued or guaranteed by governments and corporate entities, as well as corporate notes and investments in emerging market debt. As at December 31, 2015, 74% (82% in 2014) of bonds were issued or guaranteed by Canadian, U.S. or other governments. Mortgages consist of mortgage products which are primarily conventional or participating loans secured by commercial properties.
- Equity investments are primarily publicly traded securities, well diversified by country, issuer and industry sector. As at December 31, 2015, the most significant allocation to an individual issuer was approximately 2% (2% in 2014) and the most significant allocation to an industry sector was approximately 22% (23% in 2014).
- Real estate is a diversified portfolio of Canadian land and commercial properties and investments in real estate private equity funds.
- Oil and gas investments include petroleum and natural gas properties and listed and non-listed Canadian securities of oil and gas companies.
- Infrastructure investments include participations in private infrastructure funds, public and private debt and publicly traded equity securities of infrastructure and utility companies.
- Absolute return investments are primarily a portfolio of units of externally managed hedge funds, which are invested in various long/short strategies within multi-strategy, fixed income, equities, global macro and commodity funds, as presented in the table of fair value measurement. Managers are monitored on a continuous basis through investment and operational due diligence.
- Risk-based allocation investments are a portfolio of units of externally managed funds where the asset class exposures are managed on a risk-adjusted basis in order to capture asset class premiums.

The plans' Investment Manager monitors market events and exposures to markets, currencies and interest rates daily. When investing in foreign securities, the plans are exposed to foreign currency risk that may be adjusted or hedged; the effect of which is included in the valuation of the foreign securities. Net of the effects mentioned above, the plans were 66% exposed to the Canadian dollar, 13% to the US dollar, 8% to European currencies, 5% to the Japanese Yen and 8% to various other currencies as at December 31, 2015. Interest rate risk represents the risk that the fair value of the investments will fluctuate due to changes in market interest rates. Sensitivity to interest rates is a function of the timing and amount of cash flows of the assets and liabilities of the plans. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans, particularly the Company's main Canadian pension plan. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuations may have a material adverse effect on the funded status of the plans and on the Company's results of operations. Derivatives are used from time to time to adjust asset mix or exposures to foreign currencies, interest rate or market risks of the portfolio or anticipated transactions. Derivatives are contractual agreements whose value is derived from interest rates, foreign exchange rates, and equity or commodity prices. They may include forwards, futures, options and swaps and are included in investment categories based on their underlying exposure. When derivatives are used for hedging purposes, the gains or losses on the derivatives are offset by a corresponding change in the value of the hedged assets. To manage credit risk, established policies require dealing with counterparties considered to be of high credit quality.

The tables on the following pages present the fair value of plan assets as at December 31, 2015 and 2014 by asset class, their level within the fair value hierarchy, and the valuation techniques and inputs used to measure such fair value:

12 | Pensions and other postretirement benefits

continued

In millions	Fair value measurements at December 31, 2015 Total	Level 1	Level 2	Level 3
Cash and short-term investments [1]	$ 389	$ 47	$ 342	$ -
Bonds [2]				
Canada, U.S. and supranational	1,280	-	1,280	-
Provinces of Canada and municipalities	2,611	-	2,611	-
Corporate	911	-	911	-
Emerging market debt	471	-	471	-
Mortgages [3]	127	-	127	-
Equities [4]				
Canadian	1,556	1,532	-	24
U.S.	1,236	1,236	-	-
International	4,315	4,315	-	-
Real estate [5]	357	-	-	357
Oil and gas [6]	1,012	234	12	766
Infrastructure [7]	1,237	10	102	1,125
Absolute return funds [8]				
Multi-strategy	714	-	714	-
Fixed income	440	-	372	68
Equity	261	-	261	-
Global macro	499	-	499	-
Risk-based allocation [9]	422	-	422	-
Total	**$ 17,838**	**$ 7,374**	**$ 8,124**	**$ 2,340**
Other [10]	79			
Total plan assets	**$ 17,917**			

In millions	Fair value measurements at December 31, 2014 Total	Level 1	Level 2	Level 3
Cash and short-term investments [1]	$ 579	$ 64	$ 515	$ -
Bonds [2]				
Canada, U.S. and supranational	1,450	-	1,450	-
Provinces of Canada and municipalities	2,701	-	2,701	-
Corporate	618	-	618	-
Emerging market debt	296	-	296	-
Mortgages [3]	131	-	131	-
Equities [4]				
Canadian	2,096	2,072	-	24
U.S.	1,493	1,493	-	-
International	3,425	3,425	-	-
Real estate [5]	317	-	-	317
Oil and gas [6]	1,374	349	17	1,008
Infrastructure [7]	885	14	107	764
Absolute return funds [8]				
Multi-strategy	591	-	591	-
Fixed income	471	-	428	43
Equity	299	-	299	-
Global macro	384	-	384	-
Commodity	1	-	1	-
Risk-based allocation [9]	635	-	635	-
Total	$ 17,746	$ 7,417	$ 8,173	$ 2,156
Other [10]	15			
Total plan assets	$ 17,761			

Level 1: Fair value based on quoted prices in active markets for identical assets.
Level 2: Fair value based on other significant observable inputs.
Level 3: Fair value based on significant unobservable inputs.

Footnotes to the table follow on the next page.

The following table reconciles the beginning and ending balances of the fair value of investments classified as Level 3:

	Fair value measurements based on significant unobservable inputs (Level 3)					
In millions	**Equities** (4)	**Real estate** (5)	**Oil and gas** (6)	**Infrastructure** (7)	**Absolute return** (8)	**Total**
Balance at December 31, 2013	$ 22	$ 299	$ 961	$ 663	$ 33	$ 1,978
Actual return relating to assets still held at the reporting date	1	21	-	2	1	25
Purchases	4	-	47	159	9	219
Sales	(3)	(3)	-	(60)	-	(66)
Balance at December 31, 2014	$ 24	$ 317	$ 1,008	$ 764	$ 43	$ 2,156
Actual return relating to assets still held at the reporting date	5	(5)	(242)	160	1	(81)
Purchases	3	51	-	405	30	489
Sales	(8)	(6)	-	(204)	(6)	(224)
Balance at December 31, 2015	**$ 24**	**$ 357**	**$ 766**	**$ 1,125**	**$ 68**	**$ 2,340**

(1) Cash and short-term investments are valued at cost, which approximates fair value, and are categorized as Level 1 for cash and Level 2 for short-term investments.

(2) Bonds are valued using mid-price bids obtained from independent pricing data suppliers. When prices are not available from independent sources, the fair value is based on the present value of future cash flows using current market yields for comparable instruments. Emerging market debt funds are valued based on the net asset value obtained from each fund's administrator. All bonds are categorized as Level 2.

(3) Mortgages are secured by real estate. The fair value of $127 million ($131 million in 2014) of mortgages categorized as Level 2 is based on the present value of future cash flows using current market yields for comparable instruments.

(4) The fair value of equity investments categorized as Level 1 is based on quoted prices in active markets. The fair value of equity investments of $24 million ($24 million in 2014) categorized as Level 3 represent units in private equity funds which are valued by their independent administrators.

(5) The fair value of real estate investments of $357 million ($317 million in 2014) includes land and buildings net of related mortgage debt of $4 million ($34 million in 2014) and is categorized as Level 3. Land is valued based on the fair value of comparable assets, and buildings are valued based on the present value of estimated future net cash flows or the fair value of comparable assets. Independent valuations of land and buildings are performed triennially on a rotational basis. Mortgage debt is valued based on the present value of future cash flows using current market yields for comparable instruments.

(6) Oil and gas investments categorized as Level 1 are valued based on quoted prices in active markets. Investments in oil and gas equities traded on a secondary market are valued based on the most recent transaction price and are categorized as Level 2. Investments of $766 million ($1,008 million in 2014) categorized as Level 3 consist of operating oil and gas properties and the fair value is based on estimated future net cash flows that are discounted using prevailing market rates for transactions in similar assets. The future net cash flows are based on forecasted oil and gas prices and projected future annual production and costs.

(7) Infrastructure investments consist of $10 million ($14 million in 2014) of publicly traded equity securities of infrastructure companies categorized as Level 1, $102 million ($107 million in 2014) of term loans, bonds and infrastructure funds issued by infrastructure companies categorized as Level 2 and $1,125 million ($764 million in 2014) of infrastructure funds that are categorized as Level 3 and are valued based on discounted cash flows or earnings multiples. Distributions may be received throughout the term of the funds and/or upon the sale of the underlying investments.

(8) Absolute return investments are valued using the net asset value as reported by the independent fund administrators. All absolute return investments have contractual redemption frequencies, ranging from monthly to annually, and redemption notice periods varying from 5 to 90 days. Absolute return investments are categorized as Level 2 except those that have redemption dates less frequent than every four months or that have restrictions on contractual redemption features at the reporting date, which are categorized as Level 3.

(9) Risk-based allocation investments are valued using the net asset value as reported by the independent fund administrators and are categorized as Level 2. All funds have contractual redemption frequencies ranging from daily to annually, and redemption notice periods varying from 5 to 60 days.

(10) Other consists of operating assets of $119 million ($145 million in 2014) and liabilities of $40 million ($130 million in 2014) required to administer the Trusts' investment assets and the plans' benefit and funding activities. Such assets are valued at cost and have not been assigned to a fair value category.

12 | Pensions and other postretirement benefits
continued

Obligations and funded status for defined benefit pension and other postretirement benefit plans

In millions *Year ended December 31,*	Pensions 2015	Pensions 2014	Other postretirement benefits 2015	Other postretirement benefits 2014
Change in benefit obligation				
Projected benefit obligation at beginning of year	**$ 17,279**	$ 15,510	**$ 267**	$ 256
Amendments	**1**	2	**-**	2
Interest cost	**650**	711	**10**	12
Actuarial loss (gain) on projected benefit obligation	**(112)**	1,815	**(8)**	6
Service cost	**152**	132	**3**	2
Plan participants' contributions	**58**	58	**-**	-
Foreign currency changes	**55**	22	**14**	7
Benefit payments, settlements and transfers	**(1,002)**	(971)	**(17)**	(18)
Projected benefit obligation at end of year (1)	**$ 17,081**	$ 17,279	**$ 269**	$ 267
Component representing future salary increases	**(334)**	(349)	**-**	-
Accumulated benefit obligation at end of year	**$ 16,747**	$ 16,930	**$ 269**	$ 267
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 17,761**	$ 16,869	**$ -**	$ -
Employer contributions	**108**	111	**-**	-
Plan participants' contributions	**58**	58	**-**	-
Foreign currency changes	**34**	15	**-**	-
Actual return on plan assets	**958**	1,679	**-**	-
Benefit payments, settlements and transfers	**(1,002)**	(971)	**-**	-
Fair value of plan assets at end of year (1)	**$ 17,917**	$ 17,761	**$ -**	$ -
Funded status - Excess (deficiency) of fair value of plan assets over projected benefit obligation at end of year	**$ 836**	$ 482	**$ (269)**	$ (267)

(1) The projected benefit obligation and fair value of plan assets for the CN Pension Plan at December 31, 2015 were $15,794 million and $17,038 million, respectively ($16,059 million and $16,905 million, respectively, at December 31, 2014). The measurement date of all plans is December 31.

Amounts recognized in the Consolidated Balance Sheets

In millions *December 31,*	Pensions 2015	Pensions 2014	Other postretirement benefits 2015	Other postretirement benefits 2014
Noncurrent assets - Pension asset	**$ 1,305**	**$** 882	**$ -**	$ -
Current liabilities *(Note 9)*	**-**	-	**(18)**	(17)
Noncurrent liabilities - Pension and other postretirement benefits	**(469)**	(400)	**(251)**	(250)
Total amount recognized	**$ 836**	**$** 482	**$ (269)**	$ (267)

Amounts recognized in Accumulated other comprehensive loss (Note 15)

In millions *December 31,*	Pensions 2015	Pensions 2014	Other postretirement benefits 2015	Other postretirement benefits 2014
Net actuarial gain (loss) (1)	**$ (2,204)**	$ (2,502)	**$ 21**	$ 17
Prior service cost (2)	**(17)**	(20)	**(4)**	(5)

(1) The estimated net actuarial loss for defined benefit pension plans and net actuarial gain for other postretirement benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are $198 million and $6 million, respectively.

(2) The estimated prior service cost for defined benefit pension plans and other postretirement benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are $4 million and $1 million, respectively.

Information for the pension plans with an accumulated benefit obligation in excess of plan assets

In millions	December 31,	Pensions 2015	Pensions 2014	Other postretirement benefits 2015	Other postretirement benefits 2014
Projected benefit obligation		**$ 743**	$ 646	**N/A**	N/A
Accumulated benefit obligation		**656**	585	**N/A**	N/A
Fair value of plan assets		**274**	246	**N/A**	N/A

Components of net periodic benefit cost (income) for defined benefit pension and other postretirement benefit plans

In millions	Year ended December 31,	Pensions 2015	Pensions 2014	Pensions 2013	Other postretirement benefits 2015	Other postretirement benefits 2014	Other postretirement benefits 2013
Current service cost		**$ 152**	$ 132	$ 155	**$ 3**	$ 2	$ 3
Interest cost		**650**	711	658	**10**	12	11
Settlement loss		**4**	3	4	**-**	-	-
Expected return on plan assets		**(1,004)**	(978)	(958)	**-**	-	-
Amortization of prior service cost		**4**	4	4	**1**	2	1
Amortization of net actuarial loss (gain)		**228**	124	227	**(4)**	(4)	(1)
Net periodic benefit cost (income)		**$ 34**	$ (4)	$ 90	**$ 10**	$ 12	$ 14

Weighted-average assumptions used in accounting for defined benefit pension and other postretirement benefit plans

	December 31,	Pensions 2015	Pensions 2014	Pensions 2013	Other postretirement benefits 2015	Other postretirement benefits 2014	Other postretirement benefits 2013
To determine projected benefit obligation							
Discount rate (1) (2)		**3.99%**	3.87%	4.73%	**4.14%**	3.86%	4.69%
Rate of compensation increase (3)		**2.75%**	3.00%	3.00%	**2.75%**	3.00%	3.00%
To determine net periodic benefit cost							
Discount rate (1)		**3.87%**	4.73%	4.15%	**3.86%**	4.69%	4.01%
Rate of compensation increase (3)		**3.00%**	3.00%	3.00%	**3.00%**	3.00%	3.00%
Expected return on plan assets (4)		**7.00%**	7.00%	7.00%	**N/A**	N/A	N/A

(1) The Company's discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year. Beginning in 2016, as described in the "Adoption of the spot rate approach" section of this Note, the Company will adopt the spot rate approach to measure current service cost and interest cost for all defined benefit pension and other postretirement benefit plans.

(2) The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for pension benefits as they become due. The discount rate is determined by management with the aid of third-party actuaries. For the Canadian pension and other postretirement benefit plans, future expected benefit payments at each measurement date are discounted using spot rates from a derived AA corporate bond yield curve. The derived curve is based on observed rates for AA corporate bonds with short-term maturities and a projected AA corporate curve for longer-term maturities based on spreads between observed AA corporate bonds and AA provincial bonds. The derived curve is expected to generate cash flows that match the estimated future benefit payments of the plans as the bond rate for each maturity year is applied to the plans' corresponding expected benefit payments of that year.

(3) The rate of compensation increase is determined by the Company based upon its long-term plans for such increases.

(4) To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers multiple factors. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current asset portfolio mix. Consideration is taken of the historical performance, the premium return generated from an actively managed portfolio, as well as current and future anticipated asset allocations, economic developments, inflation rates and administrative expenses. Based on these factors, the rate is determined by the Company. For 2015, the Company used a long-term rate of return assumption of 7.00% on the market-related value of plan assets to compute net periodic benefit cost (income). The Company has elected to use a market-related value of assets, whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments are recognized over a period of five years, while investment income is recognized immediately. In 2016, the Company will maintain the expected long-term rate of return on plan assets at 7.00% to reflect management's current view of long-term investment returns.

12 | Pensions and other postretirement benefits

continued

Health care cost trend rate for other postretirement benefits

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 6.5% for 2015. It is assumed that the rate will decrease gradually to 4.5% in 2028 and remain at that level thereafter. Assumed health care costs have an effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effect:

	One-percentage-point	
In millions	**Increase**	**Decrease**
Effect on total service and interest costs	$ 1	$ (1)
Effect on benefit obligation	13	(11)

Estimated future benefit payments

In millions	**Pensions**	**Other postretirement benefits**
2016	$ 1,029	$ 18
2017	1,040	19
2018	1,048	19
2019	1,053	18
2020	1,059	18
Years 2021 to 2025	5,276	87

Defined contribution and other plans

The Company maintains defined contribution pension plans for certain salaried employees as well as certain employees covered by collective bargaining agreements. The Company also maintains other plans including Section 401(k) savings plans for certain U.S. based employees. The Company's contributions under these plans are expensed as incurred and amounted to $18 million, $16 million and $13 million for 2015, 2014 and 2013, respectively.

Contributions to multi-employer plan

Under collective bargaining agreements, the Company participates in a multi-employer benefit plan named the Railroad Employees National Early Retirement Major Medical Benefit Plan which is administered by the National Carriers' Conference Committee (NCCC), and provides certain postretirement health care benefits to certain retirees. For 2015, 2014 and 2013, the Company's contributions under this plan were expensed as incurred and amounted to $10 million in each year. The annual contribution rate for the plan is determined by the NCCC and was $140.54 per month per active employee for 2015 ($141.29 in 2014). The plan covered 777 retirees in 2015 (807 in 2014).

Adoption of the spot rate approach

Beginning in 2016, the Company will adopt the spot rate approach to measure current service cost and interest cost for all defined benefit pension and other postretirement benefit plans on a prospective basis as a change in accounting estimate. In 2015 and in prior years, these costs were determined using the discount rate used to measure the projected benefit obligation at the beginning of the period.

The spot rate approach enhances the precision to which current service cost and interest cost are measured by increasing the correlation between projected cash flows and spot discount rates corresponding to their maturity. Under the spot rate approach, individual spot discount rates along the same yield curve used in the determination of the projected benefit obligation are applied to the relevant projected cash flows at the relevant maturity. More specifically, current service cost is measured using the projected cash flows related to benefits expected to be accrued in the following year by active members of a plan and interest cost is measured using the projected cash flows making up the projected benefit obligation multiplied by the corresponding spot discount rate at each maturity. Use of the spot rate approach does not affect the measurement of the projected benefit obligation.

Based on bond yields prevailing at December 31, 2015, the single equivalent discount rates to determine current service cost and interest cost under the spot rate approach in 2016 are 4.24% and 3.27%, respectively, compared to 3.99%, for both costs, under the approach applicable to 2015 and prior years. For 2016, the Company estimates the adoption of the spot rate approach will increase net periodic benefit income by approximately $120 million compared to the approach applicable in 2015 and prior years.

13 | Share capital

Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value, issuable in series
- Unlimited number of Class B Preferred Shares, without par value, issuable in series

Common shares

In millions December 31,	**2015**	2014	2013
Issued common shares	**788.6**	809.4	830.6
Common shares in Share Trusts	**(1.4)**	-	-
Outstanding common shares	**787.2**	809.4	830.6

Share purchases

Share repurchase programs

The Company may repurchase shares pursuant to a normal course issuer bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 33.0 million common shares between October 30, 2015 and October 29, 2016. As at December 31, 2015, the Company repurchased 5.8 million common shares under its current program.

The following table provides the information related to the share repurchase programs for the years ended December 31, 2015, 2014 and 2013:

In millions, except per share data *Year ended December 31,*	**2015**	2014	2013
Number of common shares repurchased (1)	**23.3**	22.4	27.6
Weighted-average price per share (2)	**$ 75.20**	$ 67.38	$ 50.65
Amount of repurchase (3)	**$ 1,750**	$ 1,505	$ 1,400

(1) Includes common shares repurchased in the first, third and fourth quarters of 2015, and the first and fourth quarters of 2014 and 2013 pursuant to private agreements between the Company and arm's-length third-party sellers.

(2) Includes brokerage fees.

(3) The 2015 common share repurchases include settlements in the subsequent period.

Share purchases by Share Trusts

In 2014, the Company established Share Trusts to purchase common shares on the open market, which will be used to deliver common shares under the Share Units Plan (see *Note 14 – Stock-based compensation*). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan. Common shares purchased by the Share Trusts are accounted for as treasury stock. The Share Trusts may sell shares on the open market to facilitate the remittance of the Company's employee tax withholding obligations. In 2016, the Share Trusts could purchase up to 1.2 million common shares on the open market in anticipation of future settlements of equity settled PSU awards.

For the year ended December 31, 2015, the Share Trusts purchased 1.4 million common shares for $100 million at a weighted-average price per share of $73.31, including brokerage fees.

Additional paid-in capital

Additional paid-in capital includes the stock-based compensation expense on equity settled awards; the excess tax benefits on stock-based compensation; and other items relating to equity settled awards. It also includes the impact of the modification of certain cash settled awards to equity settled awards, which represents the fair value of cash settled stock-based compensation awards modified in 2014 to settle in common shares of the Company and consists of $132 million, $60 million and $17 million related DSUs, PSUs and other plans, respectively (see *Note 14 – Stock-based compensation*). Upon the exercise or settlement of equity settled awards, the stock-based compensation expense related to those awards is reclassified from Additional paid-in capital to Common shares. The Company reclassified prior year balances from Common shares to Additional paid-in capital in the Consolidated Statement of Shareholders' Equity to conform with the 2015 presentation.

14 | Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the major plans is provided herein.

The following table provides the stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the years ended December 31, 2015, 2014 and 2013:

In millions	*Year ended December 31,*	**2015**	2014	2013
Share Units Plan				
Equity settled awards		**$ 39**	$ 2	$ -
Cash settled awards		**14**	117	92
Total Share Units Plan expense		**$ 53**	$ 119	$ 92
Voluntary Incentive Deferral Plan (VIDP)				
Cash settled awards		**$ (3)**	$ 33	$ 35
Total VIDP expense (recovery)		**$ (3)**	$ 33	$ 35
Stock option awards		**$ 11**	$ 9	$ 9
Total stock-based compensation expense		**$ 61**	$ 161	$ 136
Tax benefit recognized in income		**$ 14**	$ 43	$ 35

Share Units Plan

The objective of the Share Units Plan is to enhance the Company's ability to attract and retain talented employees and to provide alignment of interests between such employees and the shareholders of the Company. Under the Share Units Plan, the Company grants performance share unit (PSU) awards.

The PSU-ROIC awards vest dependent upon the attainment of a target relating to return on invested capital (ROIC) over the plan period of three years. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 200% for PSU-ROIC awards granted in 2015 (0% to 150% for PSUs-ROIC outstanding and granted prior to December 31, 2014) depending on the level of ROIC attained. Payout is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period.

PSU-TSR awards, introduced in 2015, vest from 0% to 200%, subject to the attainment of a total shareholder return (TSR) market condition over the plan period of three years based on the Company's TSR relative to a Class I Railways peer group and components of the S&P/TSX 60 Index.

On December 9, 2014, 0.5 million cash settled PSUs-ROIC granted in 2013 and 0.4 million cash settled PSUs-ROIC granted in 2014 were modified to equity settled awards. The modification affected PSUs-ROIC held by 133 employees and did not result in the recognition of incremental compensation cost as the awards were previously recognized at fair value. Further, there was no change to the vesting conditions of the awards.

Equity settled awards

PSUs-ROIC and PSUs-TSR are settled in common shares of the Company, subject to the attainment of their respective vesting conditions, by way of disbursement from the Share Trusts (see *Note 13 – Share capital*). The number of shares remitted to the participant upon settlement is equal to the number of PSUs awarded multiplied by the performance vesting factor less shares withheld to satisfy the participant's minimum statutory withholding tax requirement. For the plan period ended December 31, 2015, for the 2013 grant, the level of ROIC attained resulted in a performance vesting factor of 150%. The total fair value of the equity settled awards that were vested in 2015 was $48 million. As the minimum share price condition under the plan was met, settlement of approximately 0.6 million shares from the Share Trusts is expected to occur in the first quarter of 2016.

Cash settled awards

The value of the payout is equal to the number of PSUs-ROIC awarded multiplied by the performance vesting factor and by the 20-day average closing share price ending on January 31 of the following year. For the plan period ended December 31, 2015, for the 2013 grant, the level of ROIC attained resulted in a performance vesting factor of 150%. The total fair value of the cash settled awards that were vested in 2015 was $39 million ($106 million in 2014 and $80 million in 2013). As the minimum share price condition under the plan was met, payout of approximately $39 million is expected to be paid in the first quarter of 2016.

In 2015, there were no cash settled PSU-ROIC awards granted. In 2014, the Company granted 0.8 million PSU-ROIC awards (0.8 million in 2013) to designated management employees entitling them to receive payout in cash based on the Company's share price. These awards were then subject to modification resulting in 0.4 million PSU-ROIC awards granted in 2014 (0.5 million in 2013) to be settled in common shares of the Company.

The following table provides a summary of the activity related to PSU awards:

	Equity settled				Cash settled
	PSUs-ROIC (1)		PSUs-TSR (2)		PSUs-ROIC (3)
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value	Units
	In millions		*In millions*		*In millions*
Outstanding at December 31, 2014	0.9	$ 71.05	-	N/A	1.6
Granted	0.4	$ 50.87	0.1	$ 114.86	-
Settled	-	N/A	-	N/A	(0.9)
Outstanding at December 31, 2015	**1.3**	**$ 64.36**	**0.1**	**$ 114.86**	**0.7**
Nonvested at December 31, 2014	0.9	$ 71.05	-	N/A	0.7
Granted	0.4	$ 50.87	0.1	$ 114.86	-
Vested during the year (4)	(0.5)	$ 75.15	-	N/A	(0.3)
Nonvested at December 31, 2015	**0.8**	**$ 58.83**	**0.1**	**$ 114.86**	**0.4**

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2015 of $22 million is calculated using a lattice-based valuation model. As at December 31, 2015, total unrecognized compensation cost related to nonvested equity settled PSUs-ROIC outstanding was $20 million and is expected to be recognized over a weighted-average period of 1.6 years.

(2) The grant date fair value of equity settled PSUs-TSR granted in 2015 of $16 million is calculated using a Monte Carlo simulation model. As at December 31, 2015, total unrecognized compensation cost related to non-vested equity settled PSUs-TSR outstanding was $7 million and is expected to be recognized over a weighted-average period of 1.8 years.

(3) The fair value at December 31, 2015 of cash settled PSUs-ROIC is calculated using a lattice-based valuation model. As at December 31, 2015, total unrecognized compensation cost related to nonvested cash settled PSUs-ROIC outstanding was $8 million and is expected to be recognized over a weighted-average period of 1.0 years.

(4) The awards that were vested during the year are expected to be settled in the first quarter of 2016.

The following table provides the assumptions and fair values related to the PSU-ROIC awards:

	Equity settled			Cash settled		
	PSUs-ROIC (1)			PSUs-ROIC (2)		
Year of grant	**2015**	2014	2013	**2015**	2014	2013
Assumptions						
Stock price *($)* (3)	**84.55**	76.29	76.29	**N/A**	77.35	77.35
Expected stock price volatility (4)	**15%**	15%	17%	**N/A**	23%	N/A
Expected term *(years)* (5)	**3.0**	2.0	1.0	**N/A**	1.0	N/A
Risk-free interest rate (6)	**0.45%**	1.02%	0.98%	**N/A**	0.49%	N/A
Dividend rate *($)* (7)	**1.25**	1.00	1.00	**N/A**	1.25	N/A
Weighted-average grant date fair value *($)*	**50.87**	66.84	75.15	**N/A**	N/A	N/A
Fair value per unit *($)*	**N/A**	N/A	N/A	**N/A**	66.45	77.35

(1) Assumptions used to determine fair value of the equity settled PSU-ROIC awards are on the grant date.

(2) Assumptions used to determine fair value of the cash settled PSU-ROIC awards are as at December 31, 2015.

(3) For equity settled awards, the stock price represents the closing share price on the grant date. The stock price on the grant date for 2014 and 2013 is the stock price at the modification date of December 9, 2014.

(4) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.

(5) Represents the period of time that awards are expected to be outstanding.

(6) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.

(7) Based on the annualized dividend rate.

14 | Stock-based compensation
continued

Voluntary Incentive Deferral Plan

The Company's Voluntary Incentive Deferral Plan (VIDP) provides eligible senior management employees the opportunity to elect to receive their annual incentive bonus payment and other eligible incentive payments in deferred share units (DSU) of the Company up to specific deferral limits. A DSU is equivalent to a common share of the Company and also earns dividends when normal cash dividends are paid on common shares. For equity settled DSUs, the number of DSUs received by each participant is established at time of deferral. For cash settled DSUs, the number of DSUs received by each participant is calculated using the Company's average closing share price for the 20 trading days prior to and including the date of the incentive payment. For each participant, the Company will grant a further 25% of the amount elected in DSUs, which will vest over a period of four years. The election to receive eligible incentive payments in DSUs is no longer available to a participant when the value of the participant's vested DSUs is sufficient to meet the Company's stock ownership guidelines.

On December 9, 2014, 1.7 million cash settled DSUs were modified to equity settled awards. The modification affected DSUs held by 104 employees and did not result in the recognition of incremental compensation cost as the awards were previously recognized at fair value. Further, there was no change to the vesting conditions of the awards.

Equity settled awards

DSUs are settled in common shares of the Company at the time of cessation of employment by way of an open market purchase by the Company. The number of shares remitted to the participant is equal to the number of DSUs awarded less shares withheld to satisfy the participant's minimum statutory withholding tax requirement.

The total fair value of equity settled DSU awards vested in both 2015 and 2014 was $1 million.

Cash settled awards

The value of each participant's DSUs is payable in cash at the time of cessation of employment.

The total fair value of cash settled DSU awards vested in both 2015 and 2014 was nil ($1 million in 2013).

The following table provides a summary of the activity related to DSU awards:

	Equity settled DSUs (1)		Cash settled DSUs (2)
	Units	Weighted-average grant date fair value	Units
	In millions		*In millions*
Outstanding at December 31, 2014 (3)	1.7	$ 76.29	0.5
Granted	-	$ 81.18	-
Vested	0.1	$ 77.23	-
Settled	-	$ 76.38	(0.1)
Outstanding at December 31, 2015 (4)	**1.8**	**$ 76.44**	**0.4**

(1) The grant date fair value of equity settled DSUs granted in 2015 of $2 million is calculated using the stock price at the grant date. As at December 31, 2015, the aggregate intrinsic value of equity settled DSUs outstanding amounted to $132 million.

(2) The fair value at December 31, 2015 of cash settled DSUs is based on the intrinsic value. As at December 31, 2015 the DSU liability was $36 million ($40 million as at December 31, 2014). The closing stock price used to determine the liability was $77.35.

(3) The weighted-average grant date fair value was $76.29 per unit for equity settled DSUs modified in 2014.

(4) The number of units outstanding that were nonvested, unrecognized compensation cost related to cash settled DSUs and the remaining recognition period for cash and equity settled DSUs have not been quantified as they relate to a minimal number of units.

Stock option awards

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options issued by the Company are conventional options that vest over a period of time. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant and expire after 10 years. As at December 31, 2015, 18.4 million common shares remained authorized for future issuances under these plans.

For 2015, 2014 and 2013, the Company granted 0.9 million, 1.0 million and 1.1 million stock options, respectively.

The total number of conventional options outstanding as at December 31, 2015 was 5.9 million.

The following table provides the activity of stock option awards during 2015, and for options outstanding and exercisable at December 31, 2015, the weighted-average exercise price:

	Options outstanding		**Nonvested options**	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average grant date fair value
	In millions		*In millions*	
Outstanding at December 31, 2014 (1)	7.5	$ 37.37	2.5	$ 9.25
Granted (2)	0.9	$ 84.47	0.9	$ 13.21
Exercised (3)	(2.5)	$ 29.30	N/A	N/A
Vested (4)	N/A	N/A	(1.1)	$ 8.72
Outstanding at December 31, 2015 (1)	**5.9**	**$ 53.43**	**2.3**	**$ 10.94**
Exercisable at December 31, 2015 (1)	**3.6**	**$ 41.74**	**N/A**	**N/A**

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) The grant date fair value of options awarded in 2015 of $11 million is calculated using the Black-Scholes option-pricing model. As at December 31, 2015, total unrecognized compensation cost related to nonvested options outstanding was $7 million and is expected to be recognized over a weighted-average period of 2.3 years.

(3) The total intrinsic value of options exercised in 2015 was $127 million ($50 million in 2014 and $45 million in 2013). The cash received upon exercise of options in 2015 was $74 million ($25 million in 2014 and $28 million in 2013) and the related excess tax benefit realized was $5 million ($5 million in 2014 and $3 million in 2013).

(4) The fair value of options vested in 2015 was $9 million ($9 million in 2014 and $11 million in 2013).

The following table provides the number of stock options outstanding and exercisable as at December 31, 2015 by range of exercise price and their related intrinsic value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on December 31, 2015 at the Company's closing stock price of $77.35.

	Options outstanding				**Options exercisable**		
	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Aggregate intrinsic value	Number of options	Weighted-average exercise price	Aggregate intrinsic value
Range of exercise prices	*In millions*			*In millions*	*In millions*		*In millions*
$20.95 - $31.09	0.9	2.8	$ 24.54	$ 48	0.9	$ 24.54	$ 48
$31.10 - $47.85	1.4	5.0	$ 38.13	56	1.2	$ 36.75	47
$47.86 - $58.71	1.5	6.2	$ 52.48	37	1.1	$ 50.81	28
$58.72 - $80.87	1.2	7.6	$ 69.46	10	0.4	$ 68.09	4
$80.88 - $95.62	0.9	9.1	$ 89.63	-	-	$ 95.62	-
Balance at December 31, 2015 (1)	**5.9**	**6.1**	**$ 53.43**	**$ 151**	**3.6**	**$ 41.74**	**$ 127**

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. As at December 31, 2015, the vast majority of stock options outstanding were in-the-money. The weighted-average years to expiration of exercisable stock options was 4.8 years.

14 | Stock-based compensation

continued

The following table provides the assumptions used in the valuation of stock option awards:

Year of grant	**2015**	2014	2013
Assumptions			
Grant price *($)*	**84.47**	58.74	47.47
Expected stock price volatility (1)	**20%**	23%	23%
Expected term *(years)* (2)	**5.5**	5.4	5.4
Risk-free interest rate (3)	**0.78%**	1.51%	1.41%
Dividend rate *($)* (4)	**1.25**	1.00	0.86
Weighted-average grant date fair value *($)*	**13.21**	11.09	8.52

(1) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.

(2) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to predict option exercise behavior.

(3) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.

(4) Based on the annualized dividend rate.

Stock price volatility

Compensation cost for the Company's cash settled Share Units Plan is based on the fair value of the awards at each period-end using the lattice-based valuation model for which a primary assumption is the Company's share price. In addition, the Company's liability for the cash settled VIDP is marked-to-market at each period-end and, as such, is also reliant on the Company's share price. Fluctuations in the Company's share price cause volatility to stock-based compensation expense as recorded in Net income. The Company does not currently hold any derivative financial instruments to manage this exposure. A $1 change in the Company's share price at December 31, 2015 would have an impact of approximately $2 million on stock-based compensation expense.

Employee Share Investment Plan

The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 10% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employees' behalf, a further 35% of the amount invested by the employees, up to 6% of their gross salaries.

The following table provides the number of participants holding shares, the total number of ESIP shares purchased on behalf of employees, including the Company's contributions, as well as the resulting expense recorded for the years ended December 31, 2015, 2014 and 2013:

Year ended December 31,	**2015**	2014	2013
Number of participants holding shares	**19,728**	18,488	18,488
Total number of ESIP shares purchased on behalf of employees *(millions)*	**2.0**	2.1	2.3
Expense for Company contribution *(millions)*	**$ 38**	$ 34	$ 30

15 | Accumulated other comprehensive loss

In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2012	$ (579)	$ (3,290)	$ 8	$ (3,861)	$ 604	$ (3,257)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	440			440	7	447
Foreign exchange loss on translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(394)			(394)	52	(342)
Actuarial gain arising during the year		1,540 (1)		1,540	(411) (1)	1,129
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		226		226 (2)	(60) (3)	166
Amortization of prior service costs		5		5 (2)	(1) (3)	4
Settlement loss arising during the year		4 (1)		4 (2)	(1) (1) (3)	3
Other comprehensive income (loss)	46	1,775	-	1,821	(414)	1,407
Balance at December 31, 2013	$ (533)	$ (1,515)	$ 8	$ (2,040)	$ 190	$ (1,850)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	644			644	4	648
Foreign exchange loss on translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(569)			(569)	73	(496)
Actuarial loss arising during the year		(1,120) (1)		(1,120)	301 (1)	(819)
Prior service cost from plan amendment arising during the year		(4)		(4)	1	(3)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		120		120 (2)	(32) (3)	88
Amortization of prior service costs		6		6 (2)	(2) (3)	4
Settlement loss arising during the year		3 (1)		3 (2)	(1) (1) (3)	2
Amortization of gain on treasury lock			(1)	(1) (4)	-	(1)
Other comprehensive income (loss)	75	(995)	(1)	(921)	344	(577)
Balance at December 31, 2014	$ (458)	$ (2,510)	$ 7	$ (2,961)	$ 534	$ (2,427)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	1,607			1,607	-	1,607
Foreign exchange loss on translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(1,358)			(1,358)	181	(1,177)
Actuarial gain arising during the year		74		74	(18)	56
Prior service cost from plan amendment arising during the year		(1)		(1)	-	(1)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		224		224 (2)	(56) (3)	168
Amortization of prior service costs		5		5 (2)	(1) (3)	4
Settlement loss arising during the year		4		4 (2)	(1) (3)	3
Other comprehensive income	249	306	-	555	105	660
Balance at December 31, 2015	**$ (209)**	**$ (2,204)**	**$ 7**	**$ (2,406)**	**$ 639**	**$ (1,767)**

(1) Certain 2014 and 2013 balances have been reclassified to conform with the 2015 presentation.

(2) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 12 - Pensions and other postretirement benefits.

(3) Included in Income tax expense on the Consolidated Statement of Income.

(4) Related to treasury lock transactions settled in prior years, which are being amortized over the terms of the related debt to Interest expense on the Consolidated Statement of Income.

16 | Major commitments and contingencies

Leases

The Company has operating and capital leases, mainly for locomotives, freight cars and intermodal equipment. Of the capital leases, many provide the option to purchase the leased items at fixed values during or at the end of the lease term. As at December 31, 2015, the Company's commitments under these operating and capital leases were $742 million and $640 million, respectively. Minimum rental payments for operating leases having initial non-cancelable lease terms of more than one year and minimum lease payments for capital leases for the next five years and thereafter, are as follows:

In millions	**Operating**	**Capital**
2016	$ 169	$ 245
2017	138	186
2018	113	17
2019	82	17
2020	53	23
2021 and thereafter	187	152
Total	$ 742	$ 640
Less: Imputed interest on capital leases at rates ranging from approximately 0.7% to 7.3%		118
Present value of minimum lease payments included in debt (Note 10)		$ 522

The Company also has operating lease agreements for its automotive fleet with one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately $20 million and generally extend over five years.

Rent expense for all operating leases was $204 million, $201 million and $179 million for the years ended December 31, 2015, 2014 and 2013, respectively. Contingent rentals and sublease rentals were not significant.

Commitments

As at December 31, 2015, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of $1,475 million. The Company also has estimated remaining commitments of approximately $1.4 billion (US$1.0 billion), in relation to the U.S. federal government legislative requirement to implement Positive Train Control (PTC). In connection with CN's revised PTC implementation plan submitted in January 2016, CN performed a reassessment of all costs associated with its implementation plan and now estimates that the total implementation cost will be US$1.2 billion, of which US$0.2 billion has been spent as of December 31, 2015. The revised estimated total costs take into consideration the added complexities identified during the detailed review as well as technical challenges anticipated to comply with the regulations and to ensure the interoperability with other railroads and to maintain optimal operating performance.

In addition, the Company has estimated remaining commitments, through to December 31, 2017, of approximately $48 million (US$35 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company. These commitments are for grade separation projects, railroad infrastructure improvements, as well as commitments under a series of agreements with individual communities and a comprehensive voluntary mitigation program established to address surrounding municipalities' concerns.

Contingencies

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

Canada

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or a future stream of payments depending on the nature and severity of the injury. As such, the provision for employee injury claims is discounted. In the provinces where the Company is self-insured, costs related to employee work-related injuries are accounted for based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs. A comprehensive actuarial study is generally performed at least on a triennial basis. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information.

In 2015, the Company recorded a $12 million decrease to its provision for personal injuries and other claims in Canada as a result of a comprehensive actuarial study for employee injury claims as well as various other legal claims. In 2014 and 2013, external actuarial studies resulted in a net decrease of $2 million and a net increase of $1 million, respectively.

As at December 31, 2015, 2014 and 2013, the Company's provision for personal injury and other claims in Canada was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 203**	$ 210	$ 209
Accruals and other	**17**	28	38
Payments	**(29)**	(35)	(37)
End of year	**$ 191**	$ 203	$ 210
Current portion – End of year	**$ 27**	$ 28	$ 31

United States

Personal injury claims by the Company's employees, including claims alleging occupational disease and work-related injuries, are subject to the provisions of the *Federal Employers' Liability Act* (FELA). Employees are compensated under FELA for damages assessed based on a finding of fault through the U.S. jury system or through individual settlements. As such, the provision is undiscounted. With limited exceptions where claims are evaluated on a case-by-case basis, the Company follows an actuarial-based approach and accrues the expected cost for personal injury, including asserted and unasserted occupational disease claims, and property damage claims, based on actuarial estimates of their ultimate cost. A comprehensive actuarial study is performed annually.

For employee work-related injuries, including asserted occupational disease claims, and third-party claims, including grade crossing, trespasser and property damage claims, the actuarial valuation considers, among other factors, the Company's historical patterns of claims filings and payments. For unasserted occupational disease claims, the actuarial study includes the projection of the Company's experience into the future considering the potentially exposed population. The Company adjusts its liability based upon management's assessment and the results of the study. On an ongoing basis, management reviews and compares the assumptions inherent in the latest actuarial study with the current claim experience and, if required, adjustments to the liability are recorded.

Due to the inherent uncertainty involved in projecting future events, including events related to occupational diseases, which include but are not limited to, the timing and number of actual claims, the average cost per claim and the legislative and judicial environment, the Company's future payments may differ from current amounts recorded.

In 2015, the Company recorded a $5 million reduction to its provision for U.S. personal injury and other claims attributable to non-occupational disease claims, third-party claims and occupational disease claims pursuant to the 2015 external actuarial study. In 2014 and 2013, external actuarial studies resulted in a net decrease of $20 million and $11 million, respectively. The prior years' decreases from the 2014 and 2013 actuarial valuations were mainly attributable to non-occupational disease claims, third-party claims and occupational disease claims, reflecting a decrease in the Company's estimates of unasserted claims and costs related to asserted claims. The Company has an ongoing risk mitigation strategy focused on reducing the frequency and severity of claims through injury prevention and containment; mitigation of claims; and lower settlements of existing claims.

As at December 31, 2015, 2014 and 2013, the Company's provision for personal injury and other claims in the U.S. was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 95**	$ 106	$ 105
Accruals and other	**22**	2	18
Payments	**(30)**	(22)	(24)
Foreign exchange	**18**	9	7
End of year	**$ 105**	$ 95	$ 106
Current portion – End of year	**$ 24**	$ 20	$ 14

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at December 31, 2015, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity in a particular quarter or fiscal year.

Environmental matters

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations.

Known existing environmental concerns

The Company has identified approximately 215 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal *Comprehensive Environmental Response, Compensation, and Liability Act* of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs

16 | Major commitments and contingencies

continued

at 6 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

The ultimate cost of addressing these known contaminated sites cannot be definitively established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Environmental expenses, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

As at December 31, 2015, 2014 and 2013, the Company's provision for specific environmental sites was as follows:

In millions	**2015**	2014	2013
Beginning of year	**$ 114**	$ 119	$ 123
Accruals and other	**81**	11	12
Payments	**(91)**	(19)	(18)
Foreign exchange	**6**	3	2
End of year	**$ 110**	$ 114	$ 119
Current portion - End of year	**$ 51**	$ 45	$ 41

The Company anticipates that the majority of the liability at December 31, 2015 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its provisions to be adequate.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred for environmental matters based on known information, the discovery of new facts, future changes in laws, the possibility of releases of hazardous materials into the environment and the Company's ongoing efforts to identify potential environmental liabilities that may be associated with its properties may result in the identification of additional environmental liabilities and related costs. The magnitude of such additional liabilities and the costs of complying with future environmental laws and containing or remediating contamination cannot be reasonably estimated due to many factors, including:

- the lack of specific technical information available with respect to many sites;
- the absence of any government authority, third-party orders, or claims with respect to particular sites;
- the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites; and
- the determination of the Company's liability in proportion to other potentially responsible parties and the ability to recover costs from any third parties with respect to particular sites.

Therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such liabilities or costs, although management believes, based on current information, that the costs to address environmental matters will not have a material adverse effect on the Company's financial position or liquidity. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

Future occurrences

In railroad and related transportation operations, it is possible that derailments or other accidents, including spills and releases of hazardous materials, may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, compliance with laws and other risks, including costs relating to the performance of clean-ups, payment of environmental penalties and remediation obligations, and damages relating to harm to individuals or property.

Regulatory compliance

The Company may incur significant capital and operating costs associated with environmental regulatory compliance and clean-up requirements, in its railroad operations and relating to its past and present ownership, operation or control of real property. Operating expenses for environmental matters amounted to $20 million in 2015, $20 million in 2014 and $18 million in 2013. In addition, based on the results of its operations and maintenance programs, as well as ongoing environmental audits and other factors, the Company plans for specific capital improvements on an annual basis. Certain of these improvements help ensure facilities, such as fuelling stations and waste water and storm water treatment systems, comply with environmental standards and include new construction and the updating of existing systems and/or processes. Other capital expenditures relate to assessing and remediating certain impaired properties. The Company's environmental capital expenditures amounted to $18 million in 2015, $19 million in 2014 and $10 million in 2013.

Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit, surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business.

Guarantees

Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2016 and 2022, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at December 31, 2015, the maximum exposure in respect of these guarantees was $200 million ($194 million as at December 31, 2014). There are no recourse provisions to recover any amounts from third parties.

Other guarantees

As at December 31, 2015, the Company, including certain of its subsidiaries, had granted $551 million ($487 million as at December 31, 2014) of irrevocable standby letters of credit and $120 million ($106 million as at December 31, 2014) of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at December 31, 2015, the maximum potential liability under these guarantee instruments was $671 million ($593 million as at December 31, 2014), of which $589 million ($525 million as at December 31, 2014) related to workers' compensation and other employee benefit liabilities and $82 million ($68 million as at December 31, 2014) related to other liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The guarantee instruments expire at various dates between 2016 and 2018.

The Company has not recorded a liability as at December 31, 2015 with respect to its guarantee instruments as they related to the Company's future performance and the Company did not expect to make any payments under its guarantee instruments.

General indemnifications

In the normal course of business, the Company provides indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. During the year, the Company entered into various contracts with third parties for which an indemnification was provided. Due to the nature of the indemnification clauses, the maximum exposure for future payments cannot be reasonably determined. To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. As at December 31, 2015, the Company has not recorded a liability with respect to any indemnifications.

17 | Financial instruments

Risk management

In the normal course of business, the Company is exposed to various risks from its use of financial instruments. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Finance Committee, with a goal of maintaining a strong balance sheet, optimizing earnings per share and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes.

Foreign currency risk

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Changes in the exchange rate between the Canadian dollar and the US dollar affect the Company's revenues and expenses. To manage foreign currency risk, the Company designates US dollar-denominated long-term debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated long-term debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated long-term debt into the Canadian dollar.

The Company also enters into foreign exchange forward contracts to manage its exposure to foreign currency risk. As at December 31, 2015, the Company had outstanding foreign exchange forward contracts with a notional value of US$361 million (US$350 million as at December 31, 2014). Changes in the fair value of foreign exchange forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur. For the years ended December 31, 2015, 2014 and 2013, the Company recorded a gain of $61 million, $9 million, and $6 million, respectively, related to foreign exchange forward contracts. These gains were largely offset by losses related to the re-measurement of other US dollar-denominated monetary assets and liabilities recognized in Other income. As at December 31, 2015, Other current assets included an unrealized gain of $4 million ($9 million as at December 31, 2014) and Accounts payable and other included an unrealized loss of $2 million (nil as at December 31, 2014), related to foreign exchange forward contracts.

Interest rate risk

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. Such risk exists in relation to the Company's long-term debt. The Company mainly issues fixed-rate debt, which exposes the Company to variability in the fair value of the debt. The Company also issues debt with variable interest rates, which exposes the Company to variability in interest expense.

To manage interest rate risk, the Company manages its borrowings in line with liquidity needs, maturity schedule, and currency and interest rate profile. In anticipation of future debt issuances, the Company may use derivative instruments such as forward rate agreements. The Company does not currently hold any significant derivative instruments to manage its interest rate risk. As at December 31, 2015, Accumulated other comprehensive loss included an unamortized gain of $7 million ($7 million as at December 31, 2014) relating to treasury lock transactions settled in a prior year, which is being amortized over the term of the related debt.

Fair value of financial instruments

The following table provides the valuation methods and assumptions used by the Company to estimate the fair value of financial instruments and their associated level within the fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets	The carrying amounts of Cash and cash equivalents and Restricted cash and cash equivalents approximate fair value. These financial instruments include highly liquid investments purchased three months or less from maturity, for which the fair value is determined by reference to quoted prices in active markets.
Level 2 Significant inputs (other than quoted prices included in Level 1) are observable	The carrying amounts of Accounts receivable, Other current assets, and Accounts payable and other approximate fair value. The fair value of these financial instruments is not determined using quoted prices, but rather from market observable information. The fair value of derivative financial instruments used to manage the Company's exposure to foreign currency risk and included in Other current assets and Accounts payable and other is measured by discounting future cash flows using a discount rate derived from market data for financial instruments subject to similar risks and maturities. The carrying amount of the Company's debt does not approximate fair value. The fair value is estimated based on quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. As at December 31, 2015, the Company's debt had a carrying amount of $10,427 million ($8,372 million as at December 31, 2014) and a fair value of $11,720 million ($9,767 million as at December 31, 2014).
Level 3 Significant inputs are unobservable	The carrying amounts of investments included in Intangible and other assets approximate fair value, with the exception of certain cost investments for which significant inputs are unobservable and fair value is estimated based on the Company's proportionate share of the underlying net assets. As at December 31, 2015, the Company's investments had a carrying amount of $69 million ($58 million as at December 31, 2014) and a fair value of $220 million ($183 million as at December 31, 2014).

18 | Segmented information

The Company manages its operations as one business segment over a single network that spans vast geographic distances and territories, with operations in Canada and the U.S. Financial information reported at this level, such as revenues, operating income, and cash flow from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating financial and operational performance and allocating resources across CN's network.

The Company's strategic initiatives, which drive its operational direction, are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region). Corporate management is responsible for, among others, CN's marketing strategy, the management of large customer accounts, overall planning and control of infrastructure and rolling stock, the allocation of resources, and other functions such as financial planning, accounting and treasury.

The role of each region is to manage the day-to-day service requirements within their respective territories and control direct costs incurred locally. Such cost control is required to ensure that pre-established efficiency standards set at the corporate level are met. The regions execute the overall corporate strategy and operating plan established by corporate management, as their management of throughput and control of direct costs does not serve as the platform for the Company's decision-making process. Approximately 95% of the Company's freight revenues are from national accounts for which freight traffic spans North America and touches various commodity groups. As a result, the Company does not manage revenues on a regional basis since a large number of the movements originate in one region and pass through and/or terminate in another region.

The regions also demonstrate common characteristics in each of the following areas:

- each region's sole business activity is the transportation of freight over the Company's extensive rail network;
- the regions service national accounts that extend over the Company's various commodity groups and across its rail network;
- the services offered by the Company stem predominantly from the transportation of freight by rail with the goal of optimizing the rail network as a whole; and
- the Company and its subsidiaries, not its regions, are subject to single regulatory regimes in both Canada and the U.S.

For the years ended December 31, 2015, 2014 and 2013, no major customer accounted for more than 10% of total revenues and the largest rail freight customer represented approximately 3%, 2%, and 2%, respectively, of total rail freight revenues.

The following tables provide information by geographic area:

In millions	*Year ended December 31,*	**2015**	2014	2013
Revenues				
Canada		**$ 8,283**	$ 8,108	$ 7,149
U.S.		**4,328**	4,026	3,426
Total revenues		**$ 12,611**	$ 12,134	$ 10,575
Net income				
Canada		**$ 2,469**	$ 2,249	$ 1,762
U.S.		**1,069**	918	850
Total net income		**$ 3,538**	$ 3,167	$ 2,612

In millions	*December 31,*	**2015**	2014
Properties			
Canada		**$ 16,737**	$ 15,798
U.S.		**15,887**	12,716
Total properties		**$ 32,624**	$ 28,514

19 | Subsequent event

Shelf prospectus and registration statement

On January 5, 2016, the Company filed a new shelf prospectus with the Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), pursuant to which CN may issue up to $6.0 billion of debt securities in the Canadian and U.S. markets over the next 25 months. This shelf prospectus and registration statement replaces CN's previous shelf prospectus and registration statement that was filed on December 3, 2013. Access to capital markets under the shelf prospectus and registration statement is dependent on market conditions.