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Management's discussion and analysis (MD&A) relates to the financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or "the Company." Canadian National Railway Company's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company's objective is to provide meaningful and relevant information reflecting the Company's financial position and results of operations. In certain instances, the Company may make reference to certain non-GAAP measures that, from management's perspective, are useful measures of performance. The reader is advised to read all information provided in the MD&A in conjunction with the Company's 2014 Annual Consolidated Financial Statements and Notes thereto.

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 2014, no individual commodity group accounted for more than 23% of total revenues. From a geographic standpoint, 17% of revenues relate to United States (U.S.) domestic traffic, 33% transborder traffic, 19% 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 2014 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, and running trains safely while 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, including track upgrades to accommodate higher volumes and long sidings that allow for longer trains. The acquisition of new locomotives and cars generate 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. CN's drive to execute flawlessly is a key factor for the Company to grow the top line at low incremental cost. 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 striving to improve the entire range of customer touch points, including first-mile/last-mile activities. 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 grow the business faster than the overall economy. 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 CDP ("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 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 invested in two new state-of-the-art training facilities in 2014, aimed at preparing employees to be highly skilled, safety conscious and confident in their work environment. Curricula for technical training and leadership development has also been improved 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.

2014 Highlights

- The Company generated the highest volumes and earnings in its history and CN's growth continued to outpace that of the overall economy, mainly attributable to a record 2013/2014 Canadian grain crop, strong energy markets and new intermodal business.
- The Company repurchased 22.4 million shares during the year, returning over $1.5 billion to its shareholders.
- The Company paid quarterly dividends of $0.2500 per share amounting to $818 million.
- CN spent $2.3 billion in its capital program, with $1.25 billion targeted at maintaining the safety and integrity of the network, particularly track infrastructure; $375 million for equipment capital expenditures, including 60 new high-horsepower locomotives, and $675 million on initiatives to support growth and drive productivity.
- The Company's sustainability practices earned it a place as the leader in the Transportation and Transportation Infrastructure Industry sector of the Dow Jones Sustainability World Index.
- CN was awarded with a position on *The A List: The CDP Climate Performance Leadership Index 2014* for its actions to reduce carbon emissions and mitigate the business risks of climate change.
- CN opened two new state-of-the-art training facilities, one located in Winnipeg, Manitoba, in April 2014, the other located in suburban Chicago, Illinois, in July 2014, as part of a new revitalized company-wide training program.

Growth opportunities and assumptions

In 2014, the Company benefited from an increase in North American industrial production, U.S. housing starts and U.S. automotive sales.

In 2015, the Company sees opportunities for growth in energy-related commodities, particularly crude oil and frac sand; intermodal traffic; as well as commodities tied to U.S. housing construction and automotive sales. The Company expects North American industrial production to increase in the range of three to four percent as well as continued improvements in U.S. housing starts and U.S. automotive sales. The 2014/2015 Canadian grain crop represented a significant reduction toward the historical trend line while the U.S. grain crop was above trend. The Company assumes that the 2015/2016 grain crops in both Canada and the U.S. will be in line with trend yields.

Value creation in 2015

- CN plans to invest approximately $2.6 billion in its 2015 capital program, of which over $1.3 billion is targeted toward track infrastructure, $500 million on equipment capital expenditures, including adding 90 new high-horsepower locomotives, and $800 million on initiatives to support growth and drive productivity.
- The Company's Board of Directors approved an increase of 25% to the quarterly dividend to common shareholders, from $0.2500 per share in 2014 to $0.3125 per share in 2015.
- The Company's Board of Directors approved a new share repurchase program which allows for the repurchase of up to 28.0 million common shares between October 24, 2014 and October 23, 2015.

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. See the sections of this MD&A entitled Forward-looking statements and Strategy overview - Growth opportunities and assumptions for assumptions and risk factors.

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 · Year-over-year carload growth
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 rating · 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 of this MD&A entitled Business risks 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 2014 financial outlook. The 2014 actual results were in line with the Company's last 2014 financial outlook that was issued on October 21, 2014.

Financial highlights

In millions, except percentage and per share data	2014	2013	2012	Change Favorable/(Unfavorable) 2014 vs 2013	2013 vs 2012
Revenues	**$ 12,134**	$ 10,575	$ 9,920	15%	7%
Operating income	**$ 4,624**	$ 3,873	$ 3,685	19%	5%
Net income	**$ 3,167**	$ 2,612	$ 2,680	21%	(3%)
Adjusted net income (1)	**$ 3,095**	$ 2,582	$ 2,456	20%	5%
Basic earnings per share	**$ 3.86**	$ 3.10	$ 3.08	25%	1%
Adjusted basic earnings per share (1)	**$ 3.77**	$ 3.07	$ 2.82	23%	9%
Diluted earnings per share	**$ 3.85**	$ 3.09	$ 3.06	25%	1%
Adjusted diluted earnings per share (1)	**$ 3.76**	$ 3.06	$ 2.81	23%	9%
Dividends declared per share	**$ 1.00**	$ 0.86	$ 0.75	16%	15%
Total assets	**$ 31,792**	$ 30,163	$ 26,659	5%	13%
Total long-term liabilities	**$ 16,121**	$ 14,712	$ 13,438	(10%)	(9%)
Operating ratio	**61.9%**	63.4%	62.9%	1.5-pts	(0.5)-pts
Free cash flow (2)	**$ 2,220**	$ 1,623	$ 1,661	37%	(2%)

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

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

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.

Adjusted performance measures

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2014 Annual Consolidated Financial Statements, Notes thereto and this MD&A.

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.

For the year ended December 31, 2012, the Company reported adjusted net income of $2,456 million, or $2.81 per diluted share. The adjusted figures for the year ended December 31, 2012 exclude a gain on disposal of a segment of the Bala and a segment of the Oakville subdivisions, together with the rail fixtures and certain passenger agreements (collectively the "Bala-Oakville"), of $281 million, or $252 million after-tax ($0.29 per basic share or $0.28 per diluted share); and a net income tax expense of $28 million ($0.03 per diluted share) consisting of a $35 million income tax expense resulting from the enactment of higher provincial corporate income tax rates that was partly offset by a $7 million income tax recovery resulting from the recapitalization of a foreign investment.

The following table provides a reconciliation of net income and earnings per share, as reported for the years ended December 31, 2014, 2013 and 2012, to the adjusted performance measures presented herein.

In millions, except per share data — *Year ended December 31,*	**2014**	2013	2012
Net income as reported	$ **3,167**	$ 2,612	$ 2,680
Adjustments:			
Other income	**(80)**	(69)	(281)
Income tax expense	**8**	39	57
Adjusted net income	$ **3,095**	$ 2,582	$ 2,456
Basic earnings per share as reported	$ **3.86**	$ 3.10	$ 3.08
Impact of adjustments, per share	**(0.09)**	(0.03)	(0.26)
Adjusted basic earnings per share	$ **3.77**	$ 3.07	$ 2.82
Diluted earnings per share as reported	$ **3.85**	$ 3.09	$ 3.06
Impact of adjustments, per share	**(0.09)**	(0.03)	(0.25)
Adjusted diluted earnings per share	$ **3.76**	$ 3.06	$ 2.81

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 $1.10 and $1.03 per US$1.00, for the years ended December 31, 2014 and 2013, respectively.

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

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 (RTM) *(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%)

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, 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.

	Percentage of 2014 revenues
Chemicals and plastics	**38%**
Crude and condensate	**32%**
Refined petroleum products	**25%**
Sulfur	**5%**

Year ended December 31,	**2014**	2013	2012
Carloads *(thousands)*	**655**	611	594

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%)

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, 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.

	Percentage of 2014 revenues
Metals	**29%**
Energy materials	**29%**
Minerals	**25%**
Iron ore	**17%**

Year ended December 31,	**2014**	2013	2012
Carloads *(thousands)*	**1,063**	1,048	1,024

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%

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 newsprint, advertising lineage, non-print media and overall economic conditions, 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 lumber and panels, housing starts and renovation activities primarily in the U.S.

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.

	Percentage of 2014 revenues
Pulp and paper	**52%**
Lumber and panels	**48%**

Year ended December 31,	**2014**	2013	2012
Carloads *(thousands)*	**433**	446	445

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%

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 and the Port of Prince Rupert.

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.

	Percentage of 2014 revenues
Coal	**87%**
Petroleum coke	**13%**

Year ended December 31,	**2014**	2013	2012
Carloads *(thousands)*	**519**	416	435

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%)

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, 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.

	Percentage of 2014 revenues
Oilseeds	**31%**
Food grains	**28%**
Feed grains	**23%**
Fertilizers	**18%**

Year ended December 31,	2014	2013	2012
Carloads *(thousands)*	**640**	572	597

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%

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, directly serving the major ports of Vancouver, Prince Rupert, Montreal, Halifax and New Orleans. 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, 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.

	Percentage of 2014 revenues
International	**62%**
Domestic	**38%**

Year ended December 31,	2014	2013	2012
Carloads *(thousands)*	**2,086**	1,875	1,742

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%)

The automotive commodity group moves both 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 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, 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.

	Percentage of 2014 revenues
Finished vehicles	**91%**
Auto parts	**9%**

Year ended December 31,	2014	2013	2012
Carloads *(thousands)*	**229**	222	222

Other revenues

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

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, 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.

	Percentage of 2014 revenues
Vessels and docks	**50%**
Other non-rail services	**39%**
Other revenues	**11%**

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

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

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 figure 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.

2013 compared to 2012

In 2013, net income was $2,612 million, a decrease of $68 million, or 3%, when compared to 2012, with diluted earnings per share rising 1% to $3.09. The $68 million decrease was mainly due to a reduction in Other income resulting from lower gains on disposal of rail assets that was partly offset by an increase in Operating income.

Included in the 2013 figures was a gain on the exchange of easements of $29 million, or $18 million after-tax ($0.02 per diluted share) and a gain on disposal of the Lakeshore West of $40 million, or $36 million after-tax ($0.04 per diluted share). The 2013 figures also included a $24 million ($0.03 per diluted share) income tax expense from the enactment of higher provincial corporate income tax rates. Included in the 2012 figures was a gain on disposal of the Bala-Oakville of $281 million, or $252 million after-tax ($0.28 per diluted share) and a net income tax expense of $28 million ($0.03 per diluted share) consisting of a $35 million income tax expense resulting from the enactment of higher provincial corporate income tax rates that was partly offset by a $7 million income tax recovery resulting from the recapitalization of a foreign investment.

Operating income for the year ended December 31, 2013 increased by $188 million, or 5%, to $3,873 million. The operating ratio was 63.4% in 2013, compared to 62.9% in 2012, a 0.5-point deterioration.

Revenues for the year ended December 31, 2013 increased by $655 million, or 7%, to $10,575 million, mainly attributable to:

- freight rate increases;
- higher freight volumes due to strong energy markets, market share gains, as well as growth in the North American economy;
- the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and
- higher fuel surcharge revenues, mainly as a result of higher freight volumes.

Operating expenses for the year ended December 31, 2013 increased by $467 million, or 7%, to $6,702 million, mainly due to:

- higher labor and fringe benefits expense;
- the negative translation impact of the weaker Canadian dollar on US dollar-denominated expenses; and
- increased purchased services and material expense, in part due to weather-related conditions;
- partly offset by lower casualty and other expense.

On a constant currency basis, the Company's net income for the year ended December 31, 2013 would have been lower by $37 million, or $0.04 per diluted share.

Revenues

In millions, unless otherwise indicated	*Year ended December 31,*	2013	2012	% Change	% Change at constant currency
Rail freight revenues		$ 9,951	$ 9,306	7%	5%
Other revenues		624	614	2%	-
Total revenues		$ 10,575	$ 9,920	7%	5%
Rail freight revenues					
Petroleum and chemicals		$ 1,952	$ 1,655	18%	16%
Metals and minerals		1,240	1,159	7%	5%
Forest products		1,424	1,341	6%	4%
Coal		713	731	(2%)	(4%)
Grain and fertilizers		1,638	1,613	2%	-
Intermodal		2,429	2,261	7%	7%
Automotive		555	546	2%	-
Total rail freight revenues		$ 9,951	$ 9,306	7%	5%
Revenue ton miles (RTM) *(millions)*		210,133	201,496	4%	4%
Rail freight revenue/RTM *(cents)*		4.74	4.62	3%	1%
Carloads *(thousands)*		5,190	5,059	3%	3%
Rail freight revenue/carload *(dollars)*		1,917	1,839	4%	3%

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 and 2012 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, 2013 totaled $10,575 million compared to $9,920 million in 2012. The increase of $655 million, or 7%, was mainly attributable to freight rate increases; higher freight volumes due to strong energy markets, market share gains, as well as growth in the North American economy and the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues. Fuel surcharge revenues increased by approximately $35 million in 2013 mainly as a result of higher freight volumes.

In 2013, RTMs, increased by 4% relative to 2012. Rail freight revenue per revenue ton mile, increased by 3% when compared to 2012, driven by freight rate increases and the positive translation impact of the weaker Canadian dollar, partly offset by an increase in the average length of haul.

Petroleum and chemicals

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,952	$ 1,655	18%	16%
RTMs *(millions)*	44,634	37,449	19%	19%
Revenue/RTM *(cents)*	4.37	4.42	(1%)	(3%)

For the year ended December 31, 2013, revenues for this commodity group increased by $297 million, or 18%, when compared to 2012. The increase was mainly due to significantly higher crude oil shipments, and increased volumes of propane, freight rate increases, the positive translation impact of a weaker Canadian dollar, and higher fuel surcharge revenues due to longer haul volumes. These factors were partly offset by lower volumes of sulfur and reduced shipments of refined petroleum products due to a customer conversion to pipeline.

Revenue per revenue ton mile decreased by 1% in 2013, mainly due to a significant increase in the average length of haul, offset by freight rate increases and the positive translation impact of a weaker Canadian dollar.

Metals and minerals

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,240	$ 1,159	7%	5%
RTMs *(millions)*	21,342	20,236	5%	5%
Revenue/RTM *(cents)*	5.81	5.73	1%	(1%)

For the year ended December 31, 2013, revenues for this commodity group increased by $81 million, or 7%, when compared to 2012. The increase was mainly due to freight rate increases, higher volumes of frac sand and the positive translation impact of a weaker Canadian dollar. These factors were partly offset by lower shipments of steel products and non-ferrous ores.

Revenue per revenue ton mile increased by 1% in 2013, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar, partly offset by an increase in the average length of haul, mainly in the fourth quarter.

Forest products

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,424	$ 1,341	6%	4%
RTMs *(millions)*	29,630	29,674	-	-
Revenue/RTM *(cents)*	4.81	4.52	6%	4%

For the year ended December 31, 2013, revenues for this commodity group increased by $83 million, or 6%, when compared to 2012. The increase was mainly due to freight rate increases, the positive translation impact of a weaker Canadian dollar, and increased shipments of lumber and panels to the U.S. due to an improvement in the housing market. These factors were partly offset by a decrease in shipments of wood pulp, in part due to a mill closure in western Canada.

Revenue per revenue ton mile increased by 6% in 2013, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar.

Coal

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 713	$ 731	(2%)	(4%)
RTMs *(millions)*	22,315	23,570	(5%)	(5%)
Revenue/RTM *(cents)*	3.20	3.10	3%	2%

For the year ended December 31, 2013, revenues for this commodity group decreased by $18 million, or 2%, when compared to 2012. The decrease was mainly due to lower volumes of export thermal coal through west coast ports and reduced shipments of domestic thermal coal to U.S. utilities. These factors were partly offset by higher shipments of export metallurgical coal through west coast ports; freight rate increases; and the positive translation impact of a weaker Canadian dollar.

Revenue per revenue ton mile increased by 3% in 2013, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar.

Grain and fertilizers

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 1,638	$ 1,613	2%	-
RTMs *(millions)*	43,180	45,417	(5%)	(5%)
Revenue/RTM *(cents)*	3.79	3.55	7%	5%

For the year ended December 31, 2013, revenues for this commodity group increased by $25 million, or 2%, when compared to 2012. The increase was mainly due to freight rate increases, greater volumes of potash for offshore export and the positive translation impact of a weaker Canadian dollar. These factors were partly offset by lower shipments of canola and Canadian wheat, mainly for export, and lower volumes of barley.

Revenue per revenue ton mile increased by 7% in 2013, mainly due to freight rate increases and the positive translation impact of a weaker Canadian dollar.

Intermodal

Year ended December 31,	2013	2012	% Change	% Change at constant currency
Revenues *(millions)*	$ 2,429	$ 2,261	7%	7%
RTMs *(millions)*	46,291	42,396	9%	9%
Revenue/RTM *(cents)*	5.25	5.33	(2%)	(2%)

For the year ended December 31, 2013, revenues for this commodity group increased by $168 million, or 7%, when compared to 2012. The increase was mainly due to higher shipments through the Port of Vancouver, in part as a result of new business, and increased volumes of domestic intermodal; higher fuel surcharge revenues due to increased freight volumes; the positive translation impact of a weaker Canadian dollar; and freight rate increases. These factors were partly offset by lower volumes through the Port of Prince Rupert.

Revenue per revenue ton mile decreased by 2% in 2013, mainly due to an increase in the average length of haul, partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Automotive

Year ended December 31,		2013		2012	% Change	% Change at constant currency
Revenues *(millions)*	$	555	$	546	2%	-
RTMs *(millions)*		2,741		2,754	-	-
Revenue/RTM *(cents)*		20.25		19.83	2%	-

For the year ended December 31, 2013, revenues for this commodity group increased by $9 million, or 2%, when compared to 2012. The increase was mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases. These factors were partly offset by a non-recurring movement of military equipment in 2012.

Revenue per revenue ton mile increased by 2% in 2013, mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and a decrease in the average length of haul.

Other revenues

Year ended December 31,		2013		2012	% Change	% Change at constant currency
Revenues *(millions)*	$	624	$	614	2%	-

In 2013, Other revenues amounted to $624 million, an increase of $10 million, or 2%, when compared to 2012, mainly due to higher revenues from vessels and docks, partly offset by lower revenues from transportation management services.

Operating expenses

Operating expenses for the year ended December 31, 2013 amounted to $6,702 million, compared to $6,235 million in 2012. The increase of $467 million, or 7%, in 2013 was mainly due to higher labor and fringe benefits expense; the negative translation impact of the weaker Canadian dollar on US dollar-denominated expenses; and increased purchased services and material expense, in part due to weather-related conditions. These factors were partly offset by lower casualty and other expense.

In millions Year ended December 31,		2013		2012	% Change	% Change at constant currency	Percentage of revenues 2013	Percentage of revenues 2012
Labor and fringe benefits	$	2,182	$	1,952	(12%)	(11%)	20.6%	19.7%
Purchased services and material		1,351		1,248	(8%)	(7%)	12.8%	12.6%
Fuel		1,619		1,524	(6%)	(3%)	15.3%	15.4%
Depreciation and amortization		980		924	(6%)	(5%)	9.3%	9.3%
Equipment rents		275		249	(10%)	(8%)	2.6%	2.5%
Casualty and other		295		338	13%	15%	2.8%	3.4%
Total operating expenses	$	6,702	$	6,235	(7%)	(6%)	63.4%	62.9%

Labor and fringe benefits

Labor and fringe benefits expense increased by $230 million, or 12%, in 2013 when compared to 2012. The increase was primarily a result of increased pension expense, higher wages due to the impact of a higher workforce level as a result of volume growth and general wage increases, higher incentive compensation, as well as the negative translation impact of the weaker Canadian dollar.

Purchased services and material

Purchased services and material expense increased by $103 million, or 8%, in 2013 when compared to 2012. The increase was mainly due to weather-related conditions impacting materials, crew accommodation and utilities expenses; higher maintenance expenses for track, rolling stock and other equipment; the negative translation impact of the weaker Canadian dollar; and higher costs for third-party non-rail transportation providers.

Fuel

Fuel expense increased by $95 million, or 6%, in 2013 when compared to 2012. The increase was primarily due to higher freight volumes and the negative translation impact of the weaker Canadian dollar. These factors were partly offset by productivity improvements.

Depreciation and amortization

Depreciation and amortization expense increased by $56 million, or 6%, in 2013 when compared to 2012. The increase was mainly due to the impact of net capital additions, some asset impairments, as well as the effect of a depreciation study on certain U.S. track and roadway properties, which were partly offset by the effect of a depreciation study on Canadian track and roadway properties.

Equipment rents

Equipment rents expense increased by $26 million, or 10%, in 2013 when compared to 2012. The increase was primarily due to higher lease costs for intermodal equipment on account of volume increases, higher net car hire expenses, and the negative translation impact of the weaker Canadian dollar.

Casualty and other

Casualty and other expense decreased by $43 million, or 13%, in 2013 when compared to 2012. The decrease was mainly due to a reduction to the liability for U.S. legal claims pursuant to an actuarial valuation, as well as overall lower legal expenses; lower environmental expenses; and lower workers' compensation expenses; that were partly offset by the negative translation impact of the weaker Canadian dollar.

Other income and expenses

Interest expense

In 2013, interest expense was $357 million compared to $342 million in 2012. The increase was mainly due to a higher level of debt and the negative translation impact of the weaker Canadian dollar on US dollar-denominated interest expense, partly offset by a lower weighted-average interest rate.

Other income

In 2013, the Company recorded other income of $73 million compared to $315 million in 2012. Included in Other income for 2013 was a gain on exchange of easements in the amount of $29 million and a gain on disposal of the Lakeshore West of $40 million. Included in Other income for 2012 was a gain on disposal of the Bala-Oakville of $281 million.

Income tax expense

The Company recorded income tax expense of $977 million for the year ended December 31, 2013 compared to $978 million in 2012. The 2013 figure includes 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. Included in the 2012 figure was a net income tax expense of $28 million, which consisted of a $35 million income tax expense resulting from the enactment of higher provincial corporate income tax rates that was partly offset by a $7 million income tax recovery resulting from the recapitalization of a foreign investment. The effective tax rate for 2013 was 27.2% compared to 26.7% in 2012.

Summary of quarterly financial data

In millions, except per share data	2014 Quarters Fourth	Third	Second	First	2013 Quarters Fourth	Third	Second	First
Revenues	**$ 3,207**	**$ 3,118**	**$ 3,116**	**$ 2,693**	$ 2,745	$ 2,698	$ 2,666	$ 2,466
Operating income	**$ 1,260**	**$ 1,286**	**$ 1,258**	**$ 820**	$ 967	$ 1,084	$ 1,042	$ 780
Net income	**$ 844**	**$ 853**	**$ 847**	**$ 623**	$ 635	$ 705	$ 717	$ 555
Basic earnings per share	**$ 1.04**	**$ 1.04**	**$ 1.03**	**$ 0.75**	$ 0.76	$ 0.84	$ 0.85	$ 0.65
Diluted earnings per share	**$ 1.03**	**$ 1.04**	**$ 1.03**	**$ 0.75**	$ 0.76	$ 0.84	$ 0.84	$ 0.65
Dividends declared per share	**$ 0.250**	**$ 0.250**	**$ 0.250**	**$ 0.250**	$ 0.215	$ 0.215	$ 0.215	$ 0.215

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 of this MD&A entitled Business risks). 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 discussed below*:*

In millions, except per share data	2014 Quarters Fourth	Third	Second	First	2013 Quarters Fourth	Third	Second	First
Income tax expenses (1)	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ (19)	$ (5)	$ -
After-tax gain on disposal of property (2) (3) (4)	**-**	**-**	**-**	**72**	-	-	18	36
Impact on net income	**$ -**	**$ -**	**$ -**	**$ 72**	$ -	$ (19)	$ 13	$ 36
Impact on basic earnings per share	**$ -**	**$ -**	**$ -**	**$ 0.09**	$ -	$ (0.02)	$ 0.01	$ 0.04
Impact on diluted earnings per share	**$ -**	**$ -**	**$ -**	**$ 0.09**	$ -	$ (0.02)	$ 0.01	$ 0.04

(1) Income tax expenses resulted from the enactment of provincial corporate income tax rate changes.

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

(3) In the second quarter of 2013, the Company entered into an exchange of easements without monetary consideration. A gain of $29 million ($18 million after-tax) was recognized in Other income.

(4) The Company sold the Lakeshore West in the first quarter of 2013 for $52 million. A gain on disposal of $40 million ($36 million after-tax) was recognized in Other income.

Summary of fourth quarter 2014

Fourth quarter 2014 net income was $844 million, an increase of $209 million, or 33%, when compared to the same period in 2013, with diluted earnings per share rising 36% to $1.03.

The operating ratio was 60.7% in the fourth quarter of 2014 compared to 64.8% in the fourth quarter of 2013, a 4.1-point improvement, in part due to favorable winter conditions.

Revenues for the fourth quarter of 2014 increased by $462 million, or 17%, to $3,207 million, when compared to the same period in 2013. The increase was mainly attributable to higher freight volumes due to strong energy markets, a record 2013/2014 Canadian grain crop, and market share gains in intermodal and automotive; the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and freight rate increases. Fuel surcharge revenues decreased by $8 million in the fourth quarter of 2014, due to lower fuel surcharge rates partly offset by higher freight volumes.

Operating expenses for the fourth quarter of 2014 increased by $169 million, or 10%, to $1,947 million, when compared to the same period in 2013. The increase was primarily due to the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses; increased purchased services and material expense; higher casualty and other; as well as increased depreciation and amortization expense.

Financial position

The following tables provide an analysis of the Company's balance sheet as at December 31, 2014 as compared to 2013. 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, 2014 and 2013, the foreign exchange rates were $1.1601 and $1.0636 per US$1.00, respectively.

In millions *December 31,*	**2014**	2013	Foreign exchange impact	Variance excluding foreign exchange	Explanation of variance, other than foreign exchange impact
Total assets	**$ 31,792**	$ 30,163	$ 1,134	$ 495	
Variance mainly due to:					
Properties	**28,514**	26,227	1,032	1,255	Increase primarily due to gross property additions of $2,297 million, partly offset by depreciation of $1,050 million.
Pension asset	**882**	1,662	-	(780)	Decrease due primarily to the decrease in the year-end discount rate from 4.73% in 2013 to 3.87% in 2014.
Total liabilities	**$ 18,322**	$ 17,210	$ 1,057	$ 55	
Variance mainly due to:					
Accounts payable and other	**1,657**	1,477	49	131	Increase primarily due to higher income and other taxes payable of $112 million.
Other liabilities and deferred credits	**704**	815	37	(148)	Decrease primarily due to lower stock-based compensation liabilities of $149 million as a result of the modification of certain stock-based compensation awards from cash settled to equity settled.
Pension and other postretirement benefits	**650**	541	14	95	Increase due primarily to the decrease in the year-end discount rate from 4.73% in 2013 to 3.87% in 2014.

In millions *December 31,*	**2014**	2013	Variance	Explanation of variance
Total shareholders' equity	**$ 13,470**	$ 12,953	$ 517	
Variance mainly due to:				
Common shares	**3,718**	3,795	(77)	Decrease due to share repurchases.
Additional paid-in capital	**439**	220	219	Increase primarily due to the modification of certain stock-based compensation awards from cash settled to equity settled.
Accumulated other comprehensive loss	**(2,427)**	(1,850)	(577)	Increase in comprehensive loss due to after-tax amounts of $728 million to recognize the funded status of the Company's pension and other postretirement benefit plans, offset by $151 million for foreign exchange gains and other.
Retained earnings	**11,740**	10,788	952	Increase due to current year net income of $3,167 million, partly offset by share repurchases of $1,397 million and dividends paid of $818 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 buyback 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 at times had working capital deficits which are considered common in the rail industry because it is capital-intensive, and such deficits are 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, 2014 and December 31, 2013, the Company had Cash and cash equivalents of $52 million and $214 million, respectively; Restricted cash and cash equivalents of $463 million and $448 million, respectively; and a working capital deficit of $135 million and $521 million, respectively. 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.

Available financing sources

Revolving credit facility

The Company's revolving credit facility agreement, which expires on May 5, 2019, provides access to $800 million of debt, with an accordion feature providing for an additional $500 million subject to the consent of individual lenders. The credit facility is available for working capital and general corporate purposes, including backstopping the Company's commercial paper program.

As at December 31, 2014 and December 31, 2013, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the years ended December 31, 2014 and 2013.

Commercial paper

The Company's commercial paper program, which is fully supported by its revolving credit facility, enables it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent. The program provides a flexible financing alternative for the Company, and is refinanced at market rates in effect. 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, 2014, the Company had no commercial paper borrowings ($273 million as at December 31, 2013) 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, which expires on February 1, 2017. 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. 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 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, 2014, the Company recorded $50 million ($250 million as at December 31, 2013) of proceeds received under the accounts receivable securitization program in the Current portion of long-term debt on the Consolidated Balance Sheet, which is secured by and limited to $56 million ($281 million as at December 31, 2013) of accounts receivable.

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, which expire on April 28, 2017. 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, 2014, the Company had letters of credit drawn of $487 million ($481 million as at December 31, 2013) from a total committed amount of $511 million ($503 million as at December 31, 2013) by the various banks. As at December 31, 2014, cash and cash equivalents of $463 million ($448 million as at December 31, 2013) 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 2014 Annual Consolidated Financial Statements.

Shelf prospectus and registration statement

During 2014, the Company issued C$250 million and US$600 million in new debt under its current shelf prospectus and registration statement which provides for the issuance by CN of up to $3.0 billion of debt securities in the Canadian and U.S. capital markets. The shelf prospectus and registration statement expires in January 2016. Access to capital markets under the shelf prospectus and registration statement is dependent on market conditions at the time of pricing.

Cash flows

The following table presents a summary of the Company's cash flows provided by/used in operating, investing and financing activities:

In millions *Year ended December 31,*	**2014**	2013	Variance
Net cash provided by operating activities	**$ 4,381**	$ 3,548	$ 833
Net cash used in investing activities	**(2,176)**	(1,852)	(324)
Net cash used in financing activities	**(2,370)**	(1,656)	(714)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**3**	19	(16)
Net increase (decrease) in cash and cash equivalents	**(162)**	59	(221)
Cash and cash equivalents, beginning of year	**214**	155	59
Cash and cash equivalents, end of year	**$ 52**	$ 214	$ (162)

Operating activities

Net cash provided by operating activities increased by $833 million in 2014, mainly due to higher revenues and lower payments for income taxes and pensions. These factors were partly offset by higher payments for labor and fringe benefits, increased fuel costs, as well as higher payments for purchased services and material.

(a) Pension contributions

Company 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 made in 2014 and 2013 of $111 million and $226 million, respectively, mainly represent contributions to the Company's main pension plan, the CN Pension Plan, for the current service cost as determined under the Company's current actuarial valuations for funding purposes, and also include voluntary contributions of $100 million in 2013. In 2015, the Company expects to make total cash contributions of approximately $125 million for all of the Company's pension plans. See the section of this MD&A entitled Critical accounting estimates – Pensions and other postretirement benefits for additional information relating to the funding of the Company's pension plans.

As at December 31, 2014, the Company had $143 million of accumulated prepayments under the CN Pension Plan which remain available to offset future required solvency deficit payments. The Company expects to use these prepayments to satisfy a portion of its 2015 required solvency deficit payment. The Company established an irrevocable standby letter of credit in 2014 with a face amount of approximately $3 million in order to satisfy the solvency deficit payment for the BC Rail Pension Plan. The Company expects to further subscribe to letters of credit in 2015 to satisfy the solvency deficit payments for certain of its defined benefit pension plans including the CN Pension Plan. Under the CN Pension Plan, considering the prepayments available, it is expected that the letters of credit will only be required in the third quarter of 2015. The total face amount of the letters of credit is expected to be approximately $90 million at the end of 2015.

Additional information relating to the pension plans is provided in Note 12 – Pensions and other postretirement benefits to the Company's 2014 Annual Consolidated Financial Statements.

(b) 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 2014, net income tax payments to Canadian tax authorities were $427 million ($610 million in 2013) and net income tax payments to U.S. tax authorities were $295 million ($280 million in 2013). The overall decrease of $168 million was mainly due to a lower final payment for the 2013 fiscal year, made in February 2014. For the 2015 fiscal year, the Company's net income tax payments are expected to be approximately $950 million. In 2015, U.S. tax payments will reflect the *Tax Increase Prevention Act of 2014* which extended the allowable 50% accelerated depreciation and the Railroad Track Maintenance Credit until the end of 2014.

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 $324 million in 2014, as a result of higher property additions, partly offset by higher proceeds received from the disposal of property.

(a) Property additions

The following table provides the property additions for the years ended December 31, 2014 and 2013:

In millions	*Year ended December 31,*	**2014**	2013
Track and roadway [1]		**$ 1,604**	$ 1,400
Rolling stock		**325**	286
Buildings		**104**	104
Information technology		**144**	130
Other		**120**	97
Gross property additions		**2,297**	2,017
Less: Capital leases [2]		**-**	44
Property additions		**$ 2,297**	$ 1,973

(1) In both 2014 and 2013, 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 2014 and 2013.

(2) During 2013, the Company recorded $44 million in assets it acquired through equipment leases for which an equivalent amount was recorded in debt.

(b) Capital expenditure program

For 2015, the Company expects to invest approximately $2.6 billion in its capital program, which will be financed with cash generated from operations, as outlined below:

- $1.3 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;
- $500 million 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; and
- $800 million on initiatives to enable growth and drive productivity, such as additional track infrastructure; investments in yards, intermodal terminals, transload and distribution centers; and on information technology to improve service and operating efficiency.

Costs associated with the U.S. federal government legislative requirement to implement positive train control (PTC) by December 31, 2015 will amount to approximately US$550 million, of which approximately US$100 million was spent at the end of 2014.

(c) Disposal of property

In 2014, cash inflows included proceeds of $76 million before transaction costs, from 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 and proceeds of $97 million from the disposal of the Deux-Montagnes. In 2013, cash inflows included proceeds of $52 million from the disposal of the Lakeshore West. See the section of this MD&A entitled Adjusted performance measures for additional information relating to these disposals.

Financing activities

Net cash used in financing activities increased by $714 million in 2014, mainly driven by a net repayment of commercial paper and higher payments for share repurchases and dividends. Information about the Company's debt financing activities, share repurchase programs, and dividends paid is as follows:

(a) Debt financing activities

Debt financing activities in 2014 included the following transactions:

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

Debt financing activities in 2013 included the following transactions:

- On March 12, 2013, through a wholly-owned subsidiary, repurchased 85% of the 4.40% Notes due 2013, with a carrying value of US$340 million pursuant to a tender offer for a total cost of US$341 million, including consent payments. The remaining 15% of the 4.40% Notes with a carrying value of US$60 million were repaid upon maturity;
- On November 7, 2013, issued US$350 million (C$365 million) Floating Rate Notes due 2015, and US$250 million (C$260 million) 4.50% Notes due 2043, in the U.S. capital markets, which resulted in net proceeds of US$592 million (C$617 million); and
- Net issuance of commercial paper of $268 million.

Cash obtained from the issuance of new debt in 2014 and 2013 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 2014 Annual Consolidated Financial Statements.

(b) 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 28.0 million common shares between October 24, 2014 and October 23, 2015.

Previous share repurchase programs allowed for the repurchase of up to 30.0 million common shares between October 29, 2013 and October 23, 2014 and up to $1.4 billion in common shares, not to exceed 36.0 million common shares, between October 29, 2012 and October 28, 2013, pursuant to the NCIBs.

The following table provides the information related to the share repurchase programs for the years ended December 31, 2014, 2013 and 2012:

In millions, except per share data *Year ended December 31,*	**2014**	2013	2012	**Total program**
October 2014 - October 2015 program				
Number of common shares (1)	**5.6**	N/A	N/A	5.6
Weighted-average price per share (2)	**$ 73.29**	N/A	N/A	$ 73.29
Amount of repurchase	**$ 410**	N/A	N/A	$ 410
October 2013 - October 2014 program				
Number of common shares (1)	**16.8**	5.5	N/A	22.3
Weighted-average price per share (2)	**$ 65.40**	$ 55.25	N/A	$ 62.88
Amount of repurchase	**$ 1,095**	$ 305	N/A	$ 1,400
October 2012 - October 2013 program				
Number of common shares (1)	**N/A**	22.1	7.2	29.3
Weighted-average price per share (2)	**N/A**	$ 49.51	$ 42.11	$ 47.68
Amount of repurchase	**N/A**	$ 1,095	$ 305	$ 1,400
Total for the year				
Number of common shares (1)	**22.4**	27.6	33.8 (3)	
Weighted-average price per share (2)	**$ 67.38**	$ 50.65	$ 41.36 (3)	
Amount of repurchase	**$ 1,505**	$ 1,400	$ 1,400 (3)	

(1) Includes common shares purchased in the first and fourth quarters of 2014, 2013 and 2012 pursuant to private agreements between the Company and arm's-length third-party sellers.

(2) Includes brokerage fees.

(3) Includes repurchases from the October 2011 - October 2012 program, which consists of 26.6 million common shares, a weighted-average price per share of $41.16 and an amount of repurchase of $1,095 million.

(c) Dividends paid

During 2014, the Company paid quarterly dividends of $0.2500 per share amounting to $818 million, compared to $724 million, at the rate of $0.2150 per share, in 2013. For 2015, the Company's Board of Directors approved an increase of 25% to the quarterly dividend to common shareholders, from $0.2500 per share in 2014 to $0.3125 per share in 2015.

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, 2014:

In millions		**Total**		2015		2016		2017		2018		2019		2020 & thereafter
Debt obligations (1)	**$**	**7,739**	$	456	$	634	$	577	$	606	$	636	$	4,830
Interest on debt obligations (2)		**5,571**		366		355		342		313		270		3,925
Capital lease obligations (3)		**815**		107		343		164		15		15		171
Operating lease obligations (4)		**712**		155		116		94		77		56		214
Purchase obligations (5)		**1,054**		719		316		14		3		-		2
Pension contributions (6)		**1,005**		87		228		230		230		230		-
Other long-term liabilities reflected on the balance sheet (7)		**755**		64		39		54		40		37		521
Total contractual obligations	**$**	**17,651**	**$**	**1,954**	**$**	**2,031**	**$**	**1,475**	**$**	**1,284**	**$**	**1,244**	**$**	**9,663**

(1) Presented net of unamortized discounts, of which $833 million relates to non-interest bearing Notes due in 2094, and excludes capital lease obligations of $670 million which are included in "Capital lease obligations". Also includes $50 million outstanding under the accounts receivable securitization program.

(2) Interest payments on the floating rate notes are calculated based on the three-month London Interbank Offered Rate effective as at December 31, 2014.

(3) Includes $670 million of minimum lease payments and $145 million of imputed interest at rates ranging from 0.7% to 8.5%.

(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 $25 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) The Company's pension contributions are based on actuarial funding valuations. The estimated minimum required payments for pension contributions, excluding current service cost, are based on actuarial funding valuations as at December 31, 2013 that were filed in June 2014. Voluntary contributions can be treated as a prepayment against the Company's required special solvency deficit payments. As at December 31, 2014, the Company had $143 million of accumulated prepayments under the CN Pension Plan which remain available to offset future required solvency deficit payments. The Company expects to use these prepayments to satisfy a portion of its 2015 required solvency deficit payment. Actuarial valuations are generally required annually and as such, future payments for pension contributions are subject to re-evaluation on an annual basis. See the sections of this MD&A entitled Business risks – Pension funding volatility and Critical accounting estimates – Pensions and other postretirement benefits.

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

For 2015 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 does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends and strategic opportunities.

The Company defines its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities; adjusted for changes in restricted cash and cash equivalents and the impact of major acquisitions, if any.

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

Credit measures

Management believes that the adjusted debt-to-total capitalization ratio is a useful credit measure that aims to show the true leverage of the Company. Similarly, the adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple is another useful credit measure because it reflects the Company's ability to service its debt. The Company excludes Other income in the calculation of EBITDA. However, since these measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies and, as such, should not be considered in isolation.

Adjusted debt-to-total capitalization ratio

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

Adjusted debt-to-adjusted EBITDA

In millions, unless otherwise indicated	*Twelve months ended December 31,*	**2014**	2013
Debt		**$ 8,409**	$ 7,840
Add: Present value of operating lease commitments (2)		**607**	570
Adjusted debt		**9,016**	8,410
Operating income		**4,624**	3,873
Add: Depreciation and amortization		**1,050**	980
EBITDA (excluding Other income)		**5,674**	4,853
Add: Deemed interest on operating leases		**28**	28
Adjusted EBITDA		**$ 5,702**	$ 4,881
Adjusted debt-to-adjusted EBITDA		**1.58 times**	1.72 times

(1) Debt-to-total capitalization is calculated as total long-term debt plus current portion of long-term debt, divided by the sum of total debt plus total shareholders' equity.

(2) The operating lease commitments have been discounted using the Company's implicit interest rate for each of the periods presented.

The increase in the Company's adjusted debt-to-total capitalization ratio at December 31, 2014, as compared to 2013, was mainly due to an increased debt level and a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's higher operating income earned during 2014, partly offset by an increased debt level as at December 31, 2014, resulted in a decrease in the Company's adjusted debt-to-adjusted EBITDA multiple, as compared to 2013.

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, 2014, the Company had not recorded a liability with respect to guarantees and indemnifications. The nature of these guarantees or indemnifications, the maximum potential amount of future payments, the carrying amount of the liability, if any, and the nature of any recourse provisions are disclosed in Note 16 – Major commitments and contingencies to the Company's 2014 Annual Consolidated Financial Statements.

Financial instruments

Risk management

In the normal course of business, the Company is exposed to various financial risks from its use of financial instruments, such as credit risk, liquidity risk, and also market risks such as foreign currency risk, interest rate risk and commodity price risk. 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 use them for trading or speculative purposes. As at December 31, 2014, the Company had outstanding foreign exchange forward contracts of US$350 million (US$325 million as at December 31, 2013). As at December 31, 2014 and 2013, the Company did not have any other significant derivative financial instruments outstanding. Additional information relating to the Company's financial instruments is provided in Note 17 – Financial instruments to the Company's 2014 Annual Consolidated Financial Statements.

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. 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 is exposed to foreign currency risk because it conducts its business in both Canada and the U.S. 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 in the range of $15 million to $20 million.

The Company manages foreign currency risk by designating 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.

While the Company does not hold or issue derivative financial instruments for trading or speculative purposes, it may enter into foreign exchange contracts to manage foreign currency risk. Changes in the fair value of forward contracts, resulting from changes in foreign exchange rates, are recognized in the Consolidated Statement of Income as they occur. For the year ended December 31, 2014, a gain of $9 million ($6 million in 2013), before tax, related to the fair value of the foreign exchange forward contracts with a notional value of US$350 million (US$325 million as at December 31, 2013), was recorded in Other income on the Consolidated Statement of Income.

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. The estimated annual impact on net income of a year-over-year one-percent change in the interest rate on floating rate debt, is in the range of $10 million to $15 million.

To manage interest rate risk, the Company manages its borrowings in line with liquidity needs, maturity schedule, and currency and interest rate profile; and in anticipation of future debt issuances, the Company may enter into forward rate agreements. The Company does not currently hold any significant derivative financial instruments to manage its interest rate risk. As at December 31, 2014, Accumulated other comprehensive loss included an unamortized gain of $7 million, $5 million after-tax ($8 million, $6 million after-tax as at December 31, 2013) relating to treasury lock transactions settled in a prior year, which is being amortized over the term of the related debt.

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 calculated using the average monthly price of West-Texas Intermediate crude oil (WTI) for revenue-based tariffs and On-Highway Diesel (OHD) for mileage-based tariffs. The Company also enters into agreements with fuel suppliers which allow but do not require the Company to purchase approximately 95% of its estimated 2015 volume, 85% of its anticipated 2016 volume and 20% 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 Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

Cash and cash equivalents, Restricted cash and cash equivalents, Accounts receivable, Other current assets, Accounts payable and other

The carrying amounts approximate fair value because of the short maturity of these instruments. Cash and cash equivalents and Restricted cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are classified as Level 1. Accounts receivable, Other current assets, and Accounts payable and other are classified as Level 2 as they may not be priced using quoted prices, but rather determined from market observable information.

Intangible and other assets

Included in Intangible and other assets are equity investments for which the carrying value approximates the fair value, with the exception of certain cost investments for which the fair value is estimated based on the Company's proportionate share of the underlying net assets. Investments are classified as Level 3 as their fair value is based on significant unobservable inputs.

Debt

The fair value of the Company's debt is estimated based on the 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. The Company's debt is classified as Level 2.

As at December 31, 2014, investments have a carrying value of $58 million and a fair value of approximately $183 million (carrying value of $57 million and fair value of $164 million as at December 31, 2013).

As at December 31, 2014, the long-term debt has a carrying value of $8,409 million and a fair value of approximately $9,767 million (carrying value of $7,840 million and fair value of $8,683 million as at December 31, 2013).

Additional information related to the fair value financial instruments, including a description of the fair value hierarchy which defines the criteria used to classify financial instruments as Level 1, Level 2 or Level 3 is provided in Note 17 – Financial instruments to the Company's 2014 Annual Consolidated Financial Statements.

Outstanding share data

As at February 2, 2015, the Company had 808.8 million common shares outstanding, and 8.2 million stock options, 1.7 million deferred share units and 1.4 million performance share units outstanding under its equity settled stock-based compensation plans.

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 2014 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, 2014, in order to fully realize all of the deferred income tax assets, the Company will need to generate future taxable income of approximately $1.7 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, 2014, the total amount of gross unrecognized tax benefits was $35 million before considering tax treaties and other arrangements between taxation authorities. The amount of net unrecognized tax benefits as at December 31, 2014 was $29 million. If recognized, all of the net unrecognized tax benefits as at December 31, 2014 would affect the effective tax rate. The Company believes that it is reasonably possible that approximately $10 million of the net unrecognized tax benefits as at December 31, 2014 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.

In Canada, the Company's federal and provincial income tax returns filed for the years 2008 to 2013 remain subject to examination by the taxation authorities. An examination of the Company's federal income tax returns for the years 2010 and 2011 is currently in progress and is expected to be completed during 2015. In the U.S., the federal income tax returns filed for the years 2007 to 2013 remain subject to examination by the taxation authorities, and the state income tax returns filed for the years 2009 to 2013 remain subject to examination by the taxation authorities. An examination of the federal income tax returns for the years 2007 to 2011 is currently in progress. 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.

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. A one-percentage-point change in the Company's reported effective income tax rate would have the effect of changing the income tax expense by $44 million in 2014.

From time to time, the federal, provincial, and state governments enact new corporate income tax rates resulting in either lower or higher tax liabilities. Included in the 2013 figure was a $24 million income tax expense resulting from the enactment of higher provincial corporate income tax rates in Canada.

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. For the year ended December 31, 2012, the Company recorded total income tax expense of $978 million, of which $451 million was a deferred income tax expense and included a net income tax expense of $28 million, which consisted of a $35 million income tax expense resulting from the enactment of higher provincial corporate income tax rates that was partly offset by a $7 million income tax recovery resulting from the recapitalization of a foreign investment. The Company's net deferred income tax liability as at December 31, 2014 was $6,834 million ($6,463 million as at December 31, 2013). Additional disclosures are provided in Note 4 – Income taxes to the Company's 2014 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 $28 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 fourth quarter of 2014, the Company completed depreciation studies for equipment properties and as a result, the Company changed the estimated service lives for various types of equipment assets and their related composite depreciation rates. These depreciation studies resulted in an annualized increase to depreciation expense of approximately $17 million.

In 2014, the Company recorded total depreciation expense of $1,050 million ($979 million in 2013 and $923 million in 2012). As at December 31, 2014, the Company had Properties of $28,514 million, net of accumulated depreciation of $11,195 million ($26,227 million as at December 31, 2013, net of accumulated depreciation of $10,579 million). Additional disclosures are provided in Note 7 – Properties, to the Company's 2014 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, 2014, and December 31, 2013:

In millions	*December 31,*	**2014**	2013
Pension asset		**$ 882**	$ 1,662
Pension liability		**400**	303
Other postretirement benefits liability		**267**	256

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)

The Company accounts for net periodic benefit cost for pensions and other postretirement benefits as required by FASB ASC 715, *Compensation – Retirement Benefits*. Under the standard, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. In the calculation of net periodic benefit cost, the standard allows for a gradual recognition of changes in benefit obligations and fund performance over the expected average remaining service life of the employee group covered by the plans.

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 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, 2014, 2013 and 2012, the consolidated net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

In millions	*Year ended December 31,*	**2014**	2013	2012
Net periodic benefit cost (income) for pensions		**$ (4)**	$ 90	$ (9)
Net periodic benefit cost for other postretirement benefits		**12**	14	14

As at December 31, 2014 and 2013, the projected pension benefit obligation and accumulated other postretirement benefit obligation were as follows:

In millions	*December 31,*	**2014**	2013
Projected pension benefit obligation		**$ 17,279**	$ 15,510
Accumulated other postretirement benefit obligation		**267**	256

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 the net periodic benefit cost 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 3.87%, based on bond yields prevailing at December 31, 2014 (4.73% at December 31, 2013) was considered appropriate by the Company to match the approximately 11-year average duration of estimated future benefit payments. The current estimate for the expected average remaining service life of the employee group covered by the plans is approximately 11 years.

The Company amortizes net actuarial gains and losses over the expected average remaining service life of the employee group covered by the plans, only to the extent they are in excess of the corridor threshold. For the year ended December 31, 2014, the Company amortized $124 million related to the accumulated actuarial losses of its pension plans as part of net periodic benefit cost. The Company also recognized $3 million of actuarial losses related to settlements in its various pension plans, and recorded a net actuarial loss of $1,114 million on its pension plans, increasing the net actuarial loss recognized in Accumulated other comprehensive loss to $2,502 million ($1,515 million in 2013). The increase in the net actuarial loss was primarily due to the negative liability experience resulting from the decrease in the discount rate from 4.73% to 3.87%, partly offset by the difference in the actual and expected return on plan assets for the year ended December 31, 2014.

For the year ended December 31, 2014, a 0.25% decrease in the 3.87% discount rate used to determine the projected benefit obligation would have resulted in a decrease of approximately $490 million to the funded status for pensions and would result in an increase of approximately $30 million to the 2015 net periodic benefit cost. 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 a decrease of approximately $30 million to the 2015 net periodic benefit cost.

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 2014, 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 2015, 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, 2014 was above the market-related value of assets by $1,850 million, the projected net periodic benefit cost for 2015 would decrease by approximately $295 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 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 2014 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, 2014, the CN Pension Plan earned an annual average rate of return of 7.41%.

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

	2014	2013	2012	2011	2010
Actual	**10.1%**	11.2%	7.7%	0.3%	8.7%
Market-related value	**7.6%**	7.3%	2.3%	3.0%	4.8%
Expected	**7.00%**	7.00%	7.25%	7.50%	7.75%

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 cost for pensions for 2015

In 2015, the Company expects a net periodic benefit cost of approximately $80 million for all its defined benefit pension plans. The unfavorable variance compared to 2014 is mainly the result of an increase in the amortization of actuarial losses due to a decrease in the discount rate used from 4.73% to 3.87%, partly offset by lower interest costs.

Plan asset allocation

Based on the fair value of the assets held as at December 31, 2014, the assets of the Company's various plans are comprised of 3% in cash and short-term investments, 29% in bonds and mortgages, 39% in equities, 2% in real estate assets, 8% in oil and gas, 5% in infrastructure, 10% in absolute return investments, and 4% in risk-based allocation investments. See Note 12 - Pensions and other postretirement benefits to the Company's 2014 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 2014, a rate of compensation increase of 3% was used to determine the projected benefit obligation and 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 for prescription drugs was assumed to be 7.5% in 2014, 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, 2014, 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

On February 13, 2014, the Canadian Institute of Actuaries (CIA) published a final report on Canadian Pensioners' Mortality ("Report"). The Report contains Canadian pensioners' mortality tables and improvement scales based on experience studies conducted by the CIA. Based on the CIA's Report, the overall level of recent mortality experience is significantly lower than that anticipated by the mortality tables commonly used. Furthermore, improvement rates experienced in recent years have been substantially higher than commonly anticipated. The conclusions in the final Report are in-line with the draft Report that was issued in 2013 and that was taken into account in selecting management's best estimate mortality assumption used to calculate the projected benefit obligation for the December 31, 2013 year-end. As expected, the final Report did not have a significant impact on CN's projected benefit obligation in 2014.

Funding of pension plans

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 for all of the 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 Office of the Superintendent of Financial Institutions.

The Company's latest actuarial valuations for funding purposes conducted as at December 31, 2013 indicated a funding excess on a going-concern basis of approximately $1.6 billion and a funding deficit on a solvency basis of approximately $1.7 billion. The Company's next actuarial valuations required as at December 31, 2014 will be performed in 2015. These actuarial valuations are expected to identify a going-concern surplus of approximately $1.9 billion, while on a solvency basis a funding deficit of approximately $1.1 billion is expected due to the level of interest rates applicable at their respective measurement dates. 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. Actuarial valuations are also required annually for the Company's U.S. pension plans.

In 2014, the Company made no voluntary contributions ($100 million in 2013) in excess of the required minimum contributions. Voluntary contributions can be treated as a prepayment against its future required special solvency payments. As at December 31, 2014, the Company had $143 million of accumulated prepayments under the CN Pension Plan which remain available to offset future required solvency deficit payments. The Company expects to use these prepayments to satisfy a portion of its 2015 required solvency deficit payment. The Company established an irrevocable standby letter of credit in 2014 with a face amount of approximately $3 million in order to satisfy the solvency deficit payment for the BC Rail Pension Plan. The Company expects to further subscribe to letters of credit in 2015 to satisfy the solvency deficit payments for certain of its defined benefit pension plans including the CN Pension Plan. Under the CN Pension Plan, considering the prepayments available, it is expected that the letters of credit will only be required in the third quarter of 2015. The total face amount of the letters of credit is expected to be approximately $90 million at the end of 2015. As a result, the Company's cash contributions for 2015 are expected to be approximately $125 million, for all the Company's pension plans. The Company expects cash from operations and its other sources of financing to be sufficient to meet its 2015 funding obligations.

Adverse changes to the assumptions used to calculate the Company's funding status, particularly the discount rate, as well as changes to existing federal pension legislation could significantly impact the Company's future 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, 2014*	**CN Pension Plan**	**BC Rail Pension Plan**	**U.S. and other plans**	**Total**
Plan assets by category					
Cash and short-term investments		$ 536	$ 20	$ 23	$ 579
Bonds		4,776	196	93	5,065
Mortgages		126	4	1	131
Equities		6,681	215	118	7,014
Real estate		306	10	1	317
Oil and gas		1,325	43	6	1,374
Infrastructure		853	28	4	885
Absolute return		1,685	54	7	1,746
Risk-based allocation		612	20	3	635
Other (1)		5	1	9	15
Total plan assets		**$ 16,905**	**$ 591**	**$ 265**	**$ 17,761**
Projected benefit obligation at end of year		**$ 16,059**	**$ 561**	**$ 659**	**$ 17,279**
Company contributions in 2014		90	1	20	111
Employee contributions in 2014		58	-	-	58

(1) Other consists of operating assets of $145 million ($85 million in 2013) and liabilities of $130 million ($24 million in 2013) required to administer the trust funds' 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 2014 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 2014, the Company recorded a $2 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.

As at December 31, 2014, 2013 and 2012, the Company's provision for personal injury and other claims in Canada was as follows:

In millions		**2014**		2013		2012
Beginning of year	**$**	**210**	$	209	$	199
Accruals and other		**28**		38		55
Payments		**(35)**		(37)		(45)
End of year	**$**	**203**	$	210	$	209
Current portion - End of year	**$**	**28**	$	31	$	39

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 2014, the Company recorded a $20 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 2014 external actuarial study. In previous years, external actuarial studies have supported a net decrease of $11 million and a net increase of $1 million to the Company's provision for U.S. personal injury and other claims in 2013 and 2012, respectively. The decrease of $11 million from the 2013 actuarial valuation was 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, 2014, 2013 and 2012, the Company's provision for personal injury and other claims in the U.S. was as follows:

In millions		**2014**		2013		2012
Beginning of year	$	**106**	$	105	$	111
Accruals and other		**2**		18		31
Payments		**(22)**		(24)		(34)
Foreign exchange		**9**		7		(3)
End of year	$	**95**	$	106	$	105
Current portion - End of year	$	**20**	$	14	$	43

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 $1 million.

Environmental matters

Known existing environmental concerns

The Company has identified approximately 255 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 approximately 10 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, 2014, 2013 and 2012, the Company's provision for specific environmental sites was as follows:

In millions		**2014**		2013		2012
Beginning of year	$	**119**	$	123	$	152
Accruals and other		**11**		12		(4)
Payments		**(19)**		(18)		(24)
Foreign exchange		**3**		2		(1)
End of year	$	**114**	$	119	$	123
Current portion - End of year	$	**45**	$	41	$	31

The Company anticipates that the majority of the liability at December 31, 2014 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:

(a) the lack of specific technical information available with respect to many sites;
(b) the absence of any government authority, third-party orders, or claims with respect to particular sites;
(c) 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
(d) 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 2014, $18 million in 2013 and $16 million in 2012. For 2015, the Company expects to incur operating expenses relating to environmental matters in the same range as 2014. 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 $19 million in 2014, $10 million in 2013 and $13 million in 2012. For 2015, the Company expects to incur capital expenditures relating to environmental matters in the same range as 2014.

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 following is a discussion of key areas of business risks and uncertainties.

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 able to offer seamless services in larger market areas and, accordingly, compete effectively with the Company in numerous markets. This requires the Company to consider arrangements or other initiatives that would similarly enhance its own service.

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 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 and emergency plans and procedures), 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, and reputation in a particular quarter or fiscal year.

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, 2014, 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

Canadian workforce

As at December 31, 2014, CN employed a total of 17,732 employees in Canada, of which 13,335 were unionized employees. From time to time, the Company negotiates to renew collective agreements with various unionized groups of employees.

In the fourth quarter of 2014, the bargaining process commenced for the renewal of CN's collective agreements which expired on December 31, 2014, with:

- Unifor (formerly Canadian Auto Workers (CAW)) governing clerical, intermodal, shopcraft employees and owner operator truck drivers;
- the Teamsters Canada Rail Conference governing rail traffic controllers (TCRC-RCTC);
- the Teamsters Canada Rail Conference governing locomotive engineers (TCRC-LE); and
- the United Steelworkers of America (USW) governing track workers.

On November 7, 2014, CN requested conciliation assistance from the Minister of Labour with regards to the bargaining with Unifor and the TCRC bargaining units. On November 25, 2014, the Minister of Labour appointed conciliation officers to assist the Company and the unions in their negotiations.

On January 14, 2015, a tentative agreement was reached to renew the collective agreement with the TCRC-RCTC, which is subject to ratification by the members. The results of the ratification vote are expected by February 28, 2015.

On January 30, 2015, the collective agreement with the USW, was ratified by the members. The new collective agreement will expire on December 31, 2018.

The other collective agreements remain in effect until the bargaining process outlined under the *Canada Labour Code* has been exhausted for the respective bargaining units.

Disputes relating to the renewal of collective agreements could potentially result in strikes, work stoppages, 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.

U.S. workforce

As at December 31, 2014, CN employed a total of 7,798 employees in the U.S., of which 6,137 were unionized employees.

As of February 2, 2015, 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 Railroad Company (ICRR), 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, ranging up to 2018, which preserve the status quo in respect of the given collective agreement during the terms of such moratoriums. Some of these agreements are currently under renegotiation.

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, ICRR, 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, ICRR, WC, BLE and all employees at PCD continue to be bargained on a local (corporate) basis. In either situation, a labor dispute may not generate federal intervention in a strike or lockout situation.

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.

There can be no assurance that there will not be any work action by any of the bargaining units with which the Company is currently in negotiations or that the resolution of these negotiations will not have a material adverse effect on the Company's results of operations or financial position.

Regulation

The Company's rail operations in Canada are subject to (i) economic regulation by the Canadian Transportation Agency ("Agency") under the *Canada Transportation Act* (CTA), and (ii) safety regulation by the Federal Minister of Transport under the *Railway Safety Act* and certain other statutes. The Company's U.S. rail operations are subject to (i) economic regulation by the Surface Transportation Board (STB) and (ii) safety regulation by the Federal Railroad Administration (FRA), with the transportation of certain hazardous commodities also governed by regulations promulgated by the Pipeline and Hazardous Materials Safety Administration (PHMSA).

Economic regulation – Canada

The CTA provides rate and service remedies, including final offer arbitration (FOA), competitive line rates and compulsory interswitching. The CTA 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 January 22, 2014, Transport Canada initiated a comprehensive review and consultation on the liability and compensation regime for rail. On August 1, 2014, Transport Canada launched a second stage of consultations with a view to strengthen the liability and compensation regime for railways and shippers by establishing supplementary compensation for incidents involving dangerous goods.

On March 7, 2014, the Government of Canada issued an Order in Council, requiring each of the Company and Canadian Pacific Railway Company to move progressively increasing minimum volumes of grain up to a prescribed weekly minimum of 500,000 metric tonnes. On May 29, 2014, Bill C-30 came into force. It amended the CTA by requiring the Company and Canadian Pacific Railway Company to each move at least 500,000 metric tonnes of grain weekly through to August 3, 2014. Bill C-30 also allows: (1) the Government to specify minimum amounts of grain to be moved in future grain crop years, (2) the Agency to extend current interswitching limits for specific regions or specific commodities, (3) the Agency to make regulations specifying what constitutes 'operational terms' for the purpose of the establishment of service level agreements, and (4) the Agency to order a railway company to pay shippers for expenses incurred as a result of the railway's failure to fulfill its service obligations. The amendments introduced by Bill C-30 are intended to remain in effect up to August 1, 2016, unless further extended by Parliament.

On August 1, 2014, the Agency issued an amendment to the interswitching regulations extending the distance to 160 kilometers from the current 30 kilometers limits for all commodities in the provinces of Manitoba, Saskatchewan and Alberta. The Agency also issued regulations defining what constitutes 'operational terms' for the purpose of rail level of service arbitrations.

On August 1, 2014, the Government of Canada also issued an Order in Council requiring each of the Company and Canadian Pacific Railway Company to move at least 536,250 metric tonnes of grain weekly, subject to volume demand and corridor capacity during the period of August 3, 2014 to November 29, 2014. On November 27, 2014, the Government of Canada issued a new Order in Council prescribing various minimum volumes for the period of November 29, 2014 to March 28, 2015. Failure to move the prescribed minimum tonnage potentially subjects the Company to an administrative monetary penalty of up to $100,000 per violation.

The Company received letters from a Transport Canada Enforcement Officer requiring CN to provide detailed information and documentary evidence describing the factors that contributed to CN's failure to meet the minimum grain volume requirements in specified weeks and by how much these factors contributed to the failure. On December 14, 2014, CN was issued two notices of violation for the failure to meet the minimum volumes of grain for two separate weeks with an assessed penalty of $50,000 for each week.

On June 25, 2014, the Government launched the statutory review of the CTA. The Government appointed a six-person panel to conduct this review. The panel's report is required to be provided to the Federal Minister of Transport 18 months after their appointment. CN will be submitting comments early in 2015 on the subjects being examined by the panel.

No assurance can be given that any current or future legislative action by the federal government or other future government initiatives will not materially adversely affect the Company's results of operations or financial position.

Economic regulation – U.S.

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, with attendant risks and uncertainties. The STB has undertaken proceedings in the past few years in a number of areas.

On July 25, 2012, following hearings in June 2011 on the state of competition in the railroad industry, the STB commenced a proceeding to consider a proposal by the National Industrial Transportation League for competitive switching. In a first phase, parties submitted at STB's request on March 1, 2013, a wide variety of data to assess the scope and potential impact of the proposal and submitted reply comments on May 30, 2013. The STB held hearings on March 25-26, 2014 to further review these matters.

On July 18, 2013, the STB issued a decision raising relief caps and making certain other technical changes for rate complaints brought under its simplified rate guidelines and on December 12, 2013, the STB instituted a proceeding to invite comments on how to ensure its rate complaint procedures are accessible to grain shippers and provide effective protection against unreasonable grain rates.

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. In addition, on September 2, 2014, the STB made its annual revenue adequacy determination for Class I carriers for 2013. The STB determined that five Class I carriers are revenue adequate, among them Grand Trunk Corporation, which includes CN's U.S. affiliated operations.

On April 11, 2014, the STB adopted final rules, effective July 15, 2014, establishing that any person receiving rail cars from a rail carrier for loading or unloading, including third parties in addition to the consignor and consignee, who detains the cars beyond the period of free time specified in a carrier's governing demurrage tariff will generally be liable for demurrage if the carrier has provided that person with actual notice of the carrier's tariff establishing such liability.

On May 29, 2014, the STB instituted an advance notice of proposed rulemaking to invite comments on whether the safe harbor provision of its current fuel surcharge rules should be modified or removed.

As part of the *Passenger Rail Investment and Improvement Act of 2008* (PRIIA), the U.S. Congress has authorized the STB to investigate any railroad over whose track Amtrak operates that fails to meet an 80 percent on-time performance standard for Amtrak operations extending over two calendar quarters and to determine the cause of such failures. Compliance with this mandate began with the third quarter of 2010 and is governed by performance metrics and standards jointly issued by the FRA and Amtrak on May 12, 2010. 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 ICRR and GTW lines. CN responded on March 9, 2012 to Amtrak's complaint. CN and Amtrak entered into STB-supervised mediation until October 4, 2012, and on joint motion of the parties shortly thereafter, the STB stayed the proceedings until July 31, 2013. The Company participated in a railroad industry challenge to the constitutionality of the joint FRA/Amtrak performance metrics and standards. On July 2, 2013, the U.S. Court of Appeals for the D.C. Circuit reversed a U.S. District Court decision and determined that Congress' delegation to Amtrak of joint legislative authority with the FRA to promulgate the metrics and standards to be unconstitutional. In light of that decision, and on joint motion of the parties, the STB further stayed the proceedings until July 31, 2014, to provide time that may be necessary for a final resolution on the constitutionality of the metrics and standards pending further appeals. On June 23, 2014, the Supreme Court granted the Government's petition seeking its review of the D.C. Circuit decision and heard the case on December 8, 2014. On August 29, 2014, Amtrak filed with the STB a motion to amend its January 19, 2012 complaint against CN to limit it to a single Amtrak service over CN's ICRR line. On September 17, 2014, CN moved to dismiss the proceeding on the basis of the D.C. Circuit's constitutionality decision or alternatively to stay Amtrak's motion pending the Supreme Court's decision. On December 19, 2014, the STB issued a decision granting Amtrak's motion to limit its complaint to a single route and concluding that pending litigation involving the constitutionality of the joint FRA/Amtrak performance metrics does not preclude the case from moving forward.

On July 30, 2013, Amtrak filed an application with the STB requesting the agency to set terms and compensation for a new CN/Amtrak Operating Agreement to replace the one that was expiring on August 11, 2013. On August 1, 2013, CN agreed to continue to make its facilities available to Amtrak during the STB's consideration, under the terms of the expired agreement.

The U.S. Congress has had under consideration for several years various pieces of legislation that would increase federal economic regulation of the railroad industry. In the 2013 – 2014 session of Congress, legislation to repeal the rail industry's limited antitrust exemptions (S. 638) was introduced in the Senate, as well as a bill (S. 2777) to reauthorize funding for the STB that also addresses several economic regulatory matters, such as arbitration and STB investigation of complaints. These bills did not progress prior to the adjournment of the 2013 – 2014 session of Congress, but there is no assurance that similar bills or other legislation to increase federal economic regulation of the railroad industry will not progress through the legislative process in the future.

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 the Class I railroads to permanently report certain service performance metrics on a weekly basis.

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 District of Columbia 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, 2016, of approximately $65 million (US$56 million), in relation to the acquisition.

On November 8, 2012, the STB denied the request of the Village of Barrington, Illinois (Barrington) that the STB impose additional mitigation that would require CN to fund the full cost of a grade separation at a location along the EJ&E line in Barrington. On December 26, 2012, Barrington appealed the STB's decision to the U.S. Court of Appeals for the D.C. Circuit. On July 18, 2014, the U.S. Court of Appeals for the D.C. Circuit issued its decision denying Barrington's petition. On November 26, 2014, Barrington asked the STB to impose additional mitigation in the form of a grade separation at the intersection of U.S. Highway 14 and the EJ&E line in Barrington at CN's expense. The Company filed its reply at the STB on December 16, 2014.

The STB also imposed a five-year monitoring and oversight condition, subsequently extended by one additional year to January 2015, 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.

A first oversight audit of the Company's EJ&E's operational and environmental reporting was completed in April 2010, and after public comment was finalized by the STB in December 2010. In December 2011, the STB directed a second oversight audit that commenced on February 17, 2012, which was completed on April 30, 2012, and released publicly by the STB on June 18, 2012. On August 28, 2014, Barrington and the TRAC coalition filed a petition requesting the STB to extend its oversight for two additional years. CN replied on September 16, 2014, in opposition to the petition. On December 17, 2014, the STB granted the petition, extending oversight until January 23, 2017.

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.

The Company's ownership of the former Great Lakes Transportation vessels is 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. Regulatory initiatives of these U.S. government agencies may materially adversely affect the Company's financial position or results of operations.

On November 8, 2011, the Federal Maritime Commission (FMC), which has authority over oceanborne transport of cargo into and out of the U.S., initiated a Notice of Inquiry 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. The Company filed comments in this proceeding on January 9, 2012. In July 2012, the FMC issued its study, which found that carriers shipping cargo through Canadian or Mexican ports violate no U.S. law, treaty, agreement, or FMC regulation. The report stated, however, that the HMT is one of many factors affecting the increased use of foreign ports for cargo bound for U.S. destinations and that amendment of the current HMT structure should be considered so as to assist U.S. seaports. On September 17, 2013, the *Maritime Goods Movement Act* (Bill S. 1509) was introduced and assigned to a congressional committee for consideration. The bill proposes to replace the HMT with a Maritime Goods Movement Fee which would be imposed on any U.S.-destined cargo regardless of its point of entry into North America. Among the bill's goals is to discourage diversion of U.S.-bound goods through Canadian or Mexican ports. A companion bill, H.R. 4105, was introduced on February 27, 2014 in the U.S. House of Representatives. No action was taken on this legislation in the Senate or House prior to adjournment of the 2013 – 2014 session of Congress.

No assurance can be given that any future regulatory or legislative initiatives by the U.S. federal government related to this inquiry and proposed legislation will not materially adversely affect the Company's results of operations or its competitive and financial position.

Safety regulation – Canada

Rail safety regulation in Canada is the responsibility of Transport Canada, which administers the *Canadian Railway Safety Act*, as well as the rail portions of other safety-related statutes. On May 1, 2013, Bill S-4 came into force which prohibits anyone from operating a railway without having first obtained a Railway Operating Certificate issued by the Federal Minister of Transport. The Bill also includes the ability for the government to establish Administrative Monetary Penalties in the event of contravention of prescribed provisions of the Act or regulations.

On July 23, 2013, following a significant derailment involving a non-related short-line railroad within the Province of Quebec ("Lac-Mégantic derailment"), the Federal Minister of Transport issued an Emergency Directive under the *Canada Railway Safety Act* to enhance the effectiveness of train securement procedures and safety across the Canadian rail industry and to help reduce the risk of unintended train movements that can lead to catastrophic accidents. CN has reviewed its safety policies for unattended trains and adjusted its safety practices to comply with Transport Canada's order. Transport Canada also issued an order requiring all federal railways to formulate or revise rules, as the case may be, respecting the securement of unattended locomotives and crew size requirements. On November 20, 2013, the Railway Association of Canada filed revised rules on behalf of CN and its other member railway companies in compliance with this order. On December 26, 2013, the Federal Minister of Transport issued a notice approving the revised rules.

On October 17, 2013, Transport Canada issued Protective Direction No. 31 under the *Transportation of Dangerous Goods Act,* requiring any person offering crude oil for transport to test the classification of the crude oil being offered.

On November 20, 2013, Transport Canada issued Protective Direction No. 32 under the *Transportation of Dangerous Goods Act*, requiring railway companies to provide designated municipal emergency planning officials with yearly aggregate information on the nature and volume of dangerous goods the company transports by rail through the municipality.

On March 15, 2014, Transport Canada published for comments proposed new regulations governing railway operating certificates. They specify the safety and operating requirements that must be met in order to obtain a railway operating certificate, which will be an operating requirement for all federally-regulated railway carriers and local carriers operating on the railway lines of federally regulated carriers.

On April 23, 2014, Transport Canada issued an Emergency Directive under the *Railway Safety Act,* requiring railway companies to operate certain trains carrying dangerous commodities at speeds not to exceed 50 miles per hour. In addition, on the same date, Transport Canada issued a separate order under the *Railway Safety Act* requiring railway companies to formulate rules that would replace the Emergency Directive on a permanent basis. These rules are under development. Transport Canada further ordered railway companies to conduct route assessments for rail corridors handling significant volumes of dangerous goods. Transport Canada also issued Protective Directions 33 and 34, respectively, requiring an Emergency Response Assistance Plan in order to ship large volumes of flammable liquids and prohibiting the use of certain DOT-111 tank cars for the transportation of dangerous goods.

On May 17, 2014, Transport Canada published for comments proposed new regulations setting out the administrative monetary penalties that could be issued for violations of the *Railway Safety Act* and its associated regulations.

On July 5, 2014, Transport Canada published for comments proposed new *Railway Safety Management System Regulations* that would require federally regulated railway companies (and other carriers operating over federally regulated companies' trackage) to implement safety management systems.

On July 15, 2014, Transport Canada issued *Regulations Amending the Transportation of Dangerous Goods Regulations,* which specifies new standards for tank cars as well as the procedures and processes for classification of dangerous goods and sampling methods used by the consignors and carriers of petroleum crude oil.

On October 29, 2014, Transport Canada issued an order under the *Railway Safety Act* requiring railway companies to implement enhanced minimum securement standards for immobilized trains. Revisions to railway operating rules are under development to comply with those standards.

On December 17, 2014, Transport Canada issued new regulations for highway-railway crossings. These regulations establish specific standards for new crossings and require that existing crossings be upgraded to basic safety standards within seven years of the new regulations taking effect on April 1, 2015.

Safety regulation – U.S.

Rail safety regulation in the U.S. is the responsibility of the FRA, which administers the *Federal Railroad Safety Act*, as well as the rail portions of other safety statutes. In 2008, the U.S. federal government enacted legislation reauthorizing the *Federal Railroad Safety Act*. This legislation covers a broad range of safety issues, including fatigue management, Positive Train Control (PTC), grade crossings, bridge safety, and other matters. The legislation requires 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. The Company is taking steps to ensure implementation of PTC in accordance with the new law, including working with other Class I railroads to satisfy the requirements for U.S. network interoperability. The Company's PTC Implementation Plan, submitted in April 2010, has been approved by the FRA. CN's total implementation costs associated with PTC are estimated to be US$550 million. The legislation also caps the number of on-duty and limbo time hours for certain rail employees on a monthly basis. The Company is taking appropriate steps and is working with the FRA to ensure that its operations conform to the law's requirements.

In 2012, the Association of American Railroads (AAR) advised the FRA on behalf of the industry that a nationwide interoperable PTC network could not be completed by the current 2015 deadline. In August 2012, the FRA also reported to Congress that the majority of the carriers would be unable to meet the December 31, 2015 implementation deadline. In August 2013, legislation was introduced in the Senate that would delay PTC implementation by five years to the end of 2020, and in the same month, the U.S. Government Accountability Office published a report recommending that Congress give the FRA authority to extend the deadline for individual carriers on a case-by-case basis. The PTC implementation legislation did not progress through the legislative process prior to adjournment of the 2013 – 2014 session of Congress. The Company continues its good faith efforts to implement PTC, although it believes that the industry, including the Company, is unlikely to meet the current 2015 deadline. The Company will also continue to work with the industry to obtain an extension of the deadline. The Company notes that noncompliance with the 2015 deadline can subject the Company to regulatory sanctions.

In May 2013, the Federal Communications Commission (FCC) suspended its normal processes to review possible impacts to historic properties, including tribal historic and cultural artifacts, of the installation of tens of thousands of poles industry-wide that are required to host PTC radio operations while it considered changes to those procedures needed to accommodate that volume. On May 16, 2014, the FCC lifted its suspension upon the Advisory Council on Historic Preservation (ACHP) approval of modifications to the FCC's usual procedures for historic preservation review. The AAR reported that despite these modifications, the railroad industry will still not be able to install interoperable PTC on the entire U.S. network by the December 31, 2015 deadline.

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, AAR amended the industry's Recommended Railroad Operating Practices for Transportation of Hazardous Materials (Circular No. OT-55-N) by expanding the definition of a "key train" (for which heightened operating safeguards are required) to include trains carrying one tank car load of poison or toxic inhalation hazard, anhydrous ammonia, or ammonia solutions and to include trains carrying 20 car loads or portable tank loads of any combination of hazardous materials (including ethanol and crude oil).

On August 12, 2013, the FRA established the Railroad Safety Advisory Committee (RSAC) to provide advice and recommendations to the FRA on railroad safety matters. The FRA's Emergency Order No. 28 resulted in four new tasks accepted by the RSAC. The four tasks are: train crew size; operational testing for securement; securement and hazardous material issues. Certain of the RSAC four task groups have produced recommendations that will be considered for future rulemakings. CN is an active participant in all four task groups.

On September 6, 2013, PHMSA published an Advance Notice of Proposed Rulemaking (ANPRM) considering improvement of the regulations related to the transportation by rail of hazardous materials in tank cars. On November 14, 2013, CN was a participant in AAR's comments filed with PHMSA in this proceeding, which urged PHMSA to require that all tank cars used to transport flammable liquids be retrofitted or phased out, and that new cars be built to more stringent standards. The AAR comments included specific tank cars safety standard improvements, which the AAR maintained will substantially decrease the likelihood of a release if a tank car is involved in an accident.

On January 23, 2014, 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. The NTSB's recommendations complement those issued by the Transportation Safety Board of Canada and specifically: (1) require 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) require 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.

On August 1, 2014, PHMSA published a Notice of Proposed Rulemaking aimed at improving the safe transportation of flammable liquids by rail, addressing operating rules, specifications for new tank cars, and the retrofit of existing tank cars. Concurrently, PHMSA issued an ANPRM on comprehensive oil spill response planning. CN was a participant in AAR's comments filed with PHMSA in these two proceedings on September 30, 2014. AAR addressed speed limits for trains with at least one legacy DOT-111 tank car moving flammable liquids, urged PHMSA to refrain from requiring electronically controlled pneumatic brakes on tank cars used to move flammable liquids, advocated specific increases in federal tank car specifications, requested that crude oil routing information not be disclosed to State Emergency Response Commissions, and urged a requirement for the aggressive retrofit or phase out of existing flammable liquid tank cars as soon as possible while still enabling the industry to meet the demands for rail movement of flammable liquids.

On September 10, 2014, legislation was introduced in the U.S. Senate (S. 2784) that proposes a number of new rail safety requirements, including inward and outward facing cameras and redundant signal protection to protect maintenance of way workers, while also making significant changes to FRA civil penalty levels, requiring studies on rail operations that block crossings and on train lengths, and mandating that trains transporting high-hazard flammables and operating with any legacy DOT-111 tank cars maintain a speed limit of 40 miles per hour in areas with a population of 100,000 or more. A second bill introduced in the U.S. Senate (S. 2858) in September 2014 would create strong penalties for railroads that violate safety standards, would require standardized hazardous materials information to support first responders, and improved risk-assessment and decision-making tools for railroads. Neither bill was considered in Congress prior to adjournment of the 2013 – 2014 session.

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

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 Transportation Security Administration (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:

(a) Border security arrangements, pursuant to an agreement the Company and Canadian Pacific Railway Company entered into with the CBP and the CBSA.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

Transportation of hazardous materials

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.

(a) 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.

(b) The 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.

(c) The PHMSA has issued regulations to enhance the crashworthiness protection of tank cars used to transport toxic inhalation hazard materials and to limit the operating conditions of such cars.

(d) In Canada, the *Transportation of Dangerous Goods Act* 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.

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.

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. 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.

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.

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.

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. More specifically, climate change legislation and regulation could affect CN's utility coal customers due to coal capacity being replaced with natural gas generation and renewable energy; 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, 2014, have concluded that the Company's disclosure controls and procedures were effective.

During the fourth quarter ended December 31, 2014, 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, 2014, 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, 2014, and issued Management's Report on Internal Control over Financial Reporting dated February 2, 2015 to that effect.

The Company's 2014 Annual Information Form (AIF) and Form 40-F, may be found on SEDAR at *www.sedar.com* and on EDGAR at *www.sec.gov*, respectively. Copies of such documents, as well as the Company's Notice of Intention to Make a Normal Course Issuer Bid, may be obtained by contacting the Corporate Secretary's office.

Montreal, Canada
February 2, 2015