North America's Railroad

CN reports Q2-2015 net income of C$886 million, or C$1.10 per diluted share

Adjusted diluted earnings per share (EPS) for Q2-2015 increased by 12 per cent to C$1.15 (1)

MONTREAL, July 20, 2015 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the second quarter ended June 30, 2015.

Second-quarter 2015 financial highlights

- Net income was C$886 million, or C$1.10 per diluted share, compared with net income of C$847 million, or C$1.03 per diluted share, for second-quarter 2014. The Q2-2015 results included a deferred income tax expense of C$42 million (C$0.05 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate.
- Excluding the deferred income tax expense, Q2-2015 adjusted diluted EPS increased 12 per cent to C$1.15 from year-earlier diluted EPS of C$1.03. (1)
- Q2-2015 operating income increased eight per cent to C$1,362 million.
- Second-quarter 2015 revenues were flat at C$3,125 million, carloadings decreased by three per cent, and revenue ton-miles declined by seven per cent.
- CN's operating ratio for Q2-2015 improved by 3.2 points to 56.4 per cent from 59.6 per cent the year before.
- Free cash flow for the first six months of 2015 was C$1,051 million, compared with C$1,270 million for the year-earlier period. (1)

Claude Mongeau, president and chief executive officer, said: "I'm proud of our very solid second-quarter results, driven by the team's swift action to recalibrate resources and double-down on efficiency, while continuing to improve customer service.

"CN is pleased to reaffirm its outlook for double-digit adjusted EPS growth in 2015 versus last year's adjusted diluted EPS of C$3.76 despite volume growth that remains constrained by weakness in several markets, as well as challenging year-over-year comparables. (2)

"We're focused on our long-term agenda and investing C$2.7 billion in CN's capital program this year to support it, with an emphasis on the integrity and safety of the network."

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. The fluctuation of the Canadian dollar relative to the U.S. dollar affects the conversion of the Company's U.S.-dollar-denominated revenues and expenses. On a constant currency basis, CN's net income for the second quarter of 2015 would have been lower by C$64 million, or C$0.08 per diluted share. (1)

Second-quarter 2015 revenues, traffic volumes and expenses

Revenues for the second quarter of 2015 were flat at C$3,125 million. Revenues increased for automotive (17 per cent), forest products (eight per cent), petroleum and chemicals (four per cent), and intermodal (two per cent). Revenues declined for metals and minerals (five per cent), grain and fertilizers (seven per cent), and coal (26 per cent).

The revenue performance was mainly attributable to the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; freight rate increases; and strong overseas intermodal demand and higher volumes of finished vehicle traffic. These factors were almost entirely offset by a lower applicable fuel surcharge rate; lower volumes of Canadian grain versus the prior year's record crop; decreased shipments of coal due to weaker global demand; reduced shipments of energy-related commodities, including crude oil, frac sand, and drilling pipe; as well as lower volumes of semi-finished steel products and iron ore.

Carloadings for the quarter declined by three per cent to 1,414 thousand.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, declined by seven per cent over the year-earlier quarter. 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 seven per cent over the year-earlier period, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate and an increase in the average length of haul.

Operating expenses for the quarter decreased by five per cent to C$1,763 million, mainly due to lower fuel costs and lower labor and fringe benefits expense, partly offset by the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses as well as increased purchased services and material expense.

Forward-Looking Statements

Certain information included in this news release constitutes "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, these 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. 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. To the extent that CN has provided guidance that are non-GAAP financial measures, the Company may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results. Key assumptions used in determining forward-looking information are set forth below.

2015 key assumptions

CN has made a number of economic and market assumptions in preparing its 2015 outlook. The Company is now assuming that North American industrial production for the year will increase by approximately one per cent, compared with its April 20, 2015, assumption of three per cent, that U.S. housing starts will be in the range of 1.2 million units, and that U.S. motor vehicles sales will be approximately 16.7 million units. The 2014/2015 Canadian grain crop represented a significant reduction toward the historical trend line while the U.S. grain crop was above trend. CN assumes that the 2015/2016 grain crops in both Canada and the United States will be in-line with trend yields. CN is no longer counting on growth in customer shipments of energy-related commodities, namely crude oil and frac sand, compared with its previous assumption announced on April 20, 2015, of 40,000 carloads of growth. With these assumptions, CN now assumes total carloads for all freight categories in 2015 will be generally comparable with 2014, versus its April 20, 2015, forecast of three per cent growth. CN expects continued pricing improvement above inflation. CN assumes that in 2015 the value of the Canadian dollar in U.S. currency will be approximately $0.80, and that the average price of crude oil (West Texas Intermediate) will fluctuate around US$50 per barrel. In 2015, CN plans to invest approximately C$2.7 billion in its capital program, of which approximately C$1.4 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. The 2015 capital program also includes funds for projects supporting growth and productivity.

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 United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of 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.

1) See discussion and reconciliation of non-GAAP adjusted performance measures in the attached supplementary schedule, Non-GAAP Measures.

2) See Forward-Looking statements for a summary of the key assumptions and risks regarding CN's 2015 outlook.

CN is a true backbone of the economy, transporting more than C$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries -- serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the company's website at www.cn.ca.

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Consolidated Statement of Income - unaudited

In millions, except per share data	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Revenues	**$ 3,125**	$ 3,116	**$ 6,223**	$ 5,809
Operating expenses				
Labor and fringe benefits	**542**	560	**1,210**	1,147
Purchased services and material	**434**	390	**891**	778
Fuel	**327**	484	**688**	952
Depreciation and amortization	**285**	257	**581**	513
Equipment rents	**83**	84	**177**	161
Casualty and other	**92**	83	**251**	180
Total operating expenses	**1,763**	1,858	**3,798**	3,731
Operating income	**1,362**	1,258	**2,425**	2,078
Interest expense	**(105)**	(91)	**(209)**	(183)
Other income *(Note 3)*	**16**	2	**20**	96
Income before income taxes	**1,273**	1,169	**2,236**	1,991
Income tax expense *(Note 4)*	**(387)**	(322)	**(646)**	(521)
Net income	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Earnings per share *(Note 5)*				
Basic	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Diluted	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77
Weighted-average number of shares *(Note 5)*				
Basic	**803.5**	821.8	**806.4**	824.9
Diluted	**808.0**	825.3	**811.1**	828.3

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Comprehensive Income - unaudited

In millions	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Net income	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Other comprehensive income (loss) *(Note 9)*				
Net gain (loss) on foreign currency translation	**(18)**	(30)	**78**	(5)
Net change in pension and other postretirement benefit plans	**54**	30	**115**	63
Other comprehensive income before income taxes	**36**	-	**193**	58
Income tax recovery (expense)	**(27)**	(38)	**42**	(14)
Other comprehensive income (loss)	**9**	(38)	**235**	44
Comprehensive income	**$ 895**	$ 809	**$ 1,825**	$ 1,514

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheet - unaudited

In millions		**June 30 2015**		December 31 2014
Assets				
Current assets				
Cash and cash equivalents	**$**	**86**	$	52
Restricted cash and cash equivalents *(Note 6)*		**462**		463
Accounts receivable		**910**		928
Material and supplies		**463**		335
Deferred and receivable income taxes		**76**		163
Other		**162**		125
Total current assets		**2,159**		2,066
Properties		**30,053**		28,514
Pension asset		**1,070**		882
Intangible and other assets		**323**		330
Total assets	**$**	**33,605**	$	31,792
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and other	**$**	**1,596**	$	1,657
Current portion of long-term debt		**1,502**		544
Total current liabilities		**3,098**		2,201
Deferred income taxes		**7,383**		6,902
Other liabilities and deferred credits		**662**		704
Pension and other postretirement benefits		**666**		650
Long-term debt		**7,842**		7,865
Shareholders' equity				
Common shares		**3,687**		3,718
Common shares in Share Trusts *(Note 6)*		**(44)**		-
Additional paid-in capital		**461**		439
Accumulated other comprehensive loss *(Note 9)*		**(2,192)**		(2,427)
Retained earnings		**12,042**		11,740
Total shareholders' equity		**13,954**		13,470
Total liabilities and shareholders' equity	**$**	**33,605**	$	31,792

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity - unaudited

In millions	Number of common shares Outstanding	Number of common shares Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss *(Note 9)*	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	809.4	-	$ 3,718	$ -	$ 439	$ (2,427)	$ 11,740	$ 13,470
Net income							1,590	1,590
Stock-based compensation	0.4		18		22		(2)	38
Share repurchase program *(Note 6)*	(10.7)		(49)				(784)	(833)
Share purchases by Share Trusts *(Note 6)*	(0.6)	0.6		(44)				(44)
Other comprehensive income						235		235
Dividends							(502)	(502)
Balance at June 30, 2015	**798.5**	**0.6**	**$ 3,687**	**$ (44)**	**$ 461**	**$ (2,192)**	**$ 12,042**	**$ 13,954**

In millions	Number of common shares Outstanding	Number of common shares Share Trusts	Common shares (1)	Common shares in Share Trusts	Additional paid-in capital (1)	Accumulated other comprehensive loss *(Note 9)*	Retained earnings	Total shareholders' equity
Balance at December 31, 2013	830.6	-	$ 3,795	$ -	$ 220	$ (1,850)	$ 10,788	$ 12,953
Net income							1,470	1,470
Stock-based compensation	0.5		15		3			18
Share repurchase program *(Note 6)*	(11.9)		(58)				(672)	(730)
Other comprehensive income						44		44
Dividends							(412)	(412)
Balance at June 30, 2014	819.2	-	$ 3,752	$ -	$ 223	$ (1,806)	$ 11,174	$ 13,343

See accompanying notes to unaudited consolidated financial statements.

(1) The Company reclassified certain 2014 balances from Common shares to Additional paid-in capital to conform with the 2015 presentation.

Consolidated Statement of Cash Flows - unaudited

In millions	Three months ended June 30 **2015**	Three months ended June 30 2014	Six months ended June 30 **2015**	Six months ended June 30 2014
Operating activities				
Net income	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**285**	257	**581**	513
Deferred income taxes	**147**	53	**217**	148
Gain on disposal of property *(Note 3)*	**-**	-	**-**	(80)
Changes in operating assets and liabilities:				
Accounts receivable	**5**	(47)	**76**	(99)
Material and supplies	**(35)**	(27)	**(119)**	(81)
Accounts payable and other	**(91)**	143	**(70)**	96
Other current assets	**10**	24	**(7)**	11
Pensions and other, net	**(4)**	23	**(73)**	(60)
Net cash provided by operating activities	**1,203**	1,273	**2,195**	1,918
Investing activities				
Property additions	**(659)**	(482)	**(1,127)**	(730)
Disposal of property *(Note 3)*	**-**	-	**-**	97
Change in restricted cash and cash equivalents	**11**	3	**1**	(20)
Other, net	**(14)**	(15)	**(17)**	(15)
Net cash used in investing activities	**(662)**	(494)	**(1,143)**	(668)
Financing activities				
Issuance of debt	**-**	-	**-**	347
Repayment of debt	**(9)**	(117)	**(56)**	(573)
Net issuance of commercial paper *(Note 6)*	**69**	(180)	**379**	9
Common shares issued for stock options exercised, equity award settlements, and excess tax benefits	**3**	6	**13**	13
Repurchase of common shares *(Note 6)*	**(402)**	(347)	**(812)**	(712)
Purchase of common shares by Share Trusts *(Note 6)*	**(44)**	-	**(44)**	-
Dividends paid	**(250)**	(206)	**(502)**	(412)
Net cash used in financing activities	**(633)**	(844)	**(1,022)**	(1,328)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**-**	(6)	**4**	(9)
Net increase (decrease) in cash and cash equivalents	**(92)**	(71)	**34**	(87)
Cash and cash equivalents, beginning of period	**178**	198	**52**	214
Cash and cash equivalents, end of period	**$ 86**	$ 127	**$ 86**	$ 127
Supplemental cash flow information				
Net cash receipts from customers and other	**$ 3,083**	$ 3,060	**$ 6,295**	$ 5,732
Net cash payments for:				
Employee services, suppliers and other expenses	**(1,564)**	(1,512)	**(3,364)**	(3,196)
Interest	**(111)**	(105)	**(202)**	(210)
Personal injury and other claims	**(13)**	(11)	**(28)**	(24)
Pensions *(Note 7)*	**(6)**	(7)	**(92)**	(100)
Income taxes	**(186)**	(152)	**(414)**	(284)
Net cash provided by operating activities	**$ 1,203**	$ 1,273	**$ 2,195**	$ 1,918

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's ("CN" or the "Company") financial position as at June 30, 2015 and December 31, 2014, its results of operations and cash flows for the three and six months ended June 30, 2015 and 2014, as well as changes in shareholders' equity for the six months ended June 30, 2015 and 2014.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2014 Annual Consolidated Financial Statements and Notes thereto. While management believes that the disclosures presented are adequate to ensure that the information is not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's 2014 Annual Consolidated Financial Statements and Notes thereto.

2 - Recent accounting pronouncement

On April 7, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest*. This ASU simplifies the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a deduction from the carrying amount of debt. This standard is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted and the new guidance should be applied on a retrospective basis. The Company plans to implement this standard in the fourth quarter of 2015. The Company does not expect a significant impact to its Consolidated Financial Statements from the adoption of this standard.

On July 9, 2015, the FASB affirmed its proposal to defer the effective date of ASU 2014-09, *Revenue from Contracts with Customers,* by one year. As a result, this standard is effective for annual and interim reporting periods beginning after December 15, 2017. The FASB further affirmed its proposal to permit all entities to early adopt this standard, but not before the original effective date for annual and interim reporting periods beginning after December 15, 2016. The Company is evaluating the effect that ASU 2014-09 will have on its Consolidated Financial Statements, related disclosures, the transition method to apply and adoption period. The Company does not expect a significant impact to its Consolidated Financial Statements from the adoption of this standard.

3 - Other income

Included in Other income are gains and losses on the disposal of land and property, as well as foreign exchange gains and losses related to foreign exchange forward contracts (see Note 11 – Financial instruments) and the re-measurement of foreign currency denominated monetary assets and liabilities.

Disposal of property

2014

Deux-Montagnes

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

4 - Income taxes

The Company recorded income tax expense of $387 million and $646 million for the three and six months ended June 30, 2015, respectively, compared to $322 million and $521 million, respectively, for the same periods in 2014.

Included in the 2015 figures was a deferred income tax expense of $42 million resulting from the enactment of a higher provincial corporate income tax rate, which was recorded in the second quarter.

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, which was recorded in the first quarter.

5 – Earnings per share

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2015**	2014	**2015**	2014
Net income	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Weighted-average basic shares outstanding	**803.5**	821.8	**806.4**	824.9
Effect of stock-based compensation	**4.5**	3.5	**4.7**	3.4
Weighted-average diluted shares outstanding	**808.0**	825.3	**811.1**	828.3
Basic earnings per share	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Diluted earnings per share	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77

6 - Financing activities

Revolving credit facility

The Company has an $800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the facility amount, up to a maximum of $1.3 billion, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders. On March 12, 2015, the Company exercised such option and extended the term of its agreement by one year to May 5, 2020. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offered Rate (LIBOR), plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at June 30, 2015 and December 31, 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the six months ended June 30, 2015.

Commercial paper

The Company has a commercial paper program in Canada and a new commercial paper program was established in the U.S. during the second quarter of 2015. Both programs are back-stopped by the Company's revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent on a combined basis. As at June 30, 2015, the Company had total commercial paper borrowings of $380 million (nil as at December 31, 2014) at a weighted-average interest rate of 0.87% presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Accounts receivable securitization program

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. On June 18, 2015, the Company extended the term of its agreement by one year to February 1, 2018. As at June 30, 2015, the Company had proceeds of $50 million ($50 million as at December 31, 2014) received under the accounts receivable securitization program presented in Current portion of long-term debt on the Consolidated Balance Sheet at a weighted-average interest rate of 0.96% (1.24% as at December 31, 2014) which is secured by, and limited to, $56 million ($56 million as at December 31, 2014) of accounts receivable.

Bilateral letter of credit facilities and Restricted cash and cash equivalents

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 12, 2015, the Company extended the expiry date of its agreements by one year to April 28, 2018. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at June 30, 2015, the Company had letters of credit drawn of $485 million ($487 million as at December 31, 2014) from a total committed amount of $517 million ($511 million as at December 31, 2014) by the various banks. As at June 30, 2015, cash and cash equivalents of $462 million ($463 million as at December 31, 2014) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Share purchases

Share repurchase programs

The Company may repurchase shares pursuant to a normal course issuer bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. Under its current NCIB, the Company may repurchase up to 28.0 million common shares between October 24, 2014 and October 23, 2015. As at June 30, 2015, the Company had repurchased 16.3 million common shares for $1,243 million under its current program.

The following table provides the information related to the share repurchase programs for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2015**	2014	**2015**	2014
Number of common shares repurchased (1)	**5.3**	5.6	**10.7**	11.9
Weighted-average price per share (2)	**$ 77.14**	$ 64.70	**$ 78.17**	$ 61.29
Amount of repurchase (3)	**$ 404**	$ 365	**$ 833**	$ 730

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

(2) Includes brokerage fees.

(3) Includes settlements in subsequent periods.

Share purchases by Share Trusts

In 2014, the Company established Employee Benefit Plan Trusts (the "Share Trusts") to purchase common shares on the open market, which will be used to deliver common shares under the Share Units Plan (see Note 8 - Stock-based compensation). For the three and six months ended June 30, 2015, the Share Trusts purchased 0.6 million common shares for $44 million at a weighted-average price per share of $74.39, including brokerage fees. Additional information relating to the share purchases by Share Trusts is provided in Note 13 – Share capital to the Company's 2014 Annual Consolidated Financial Statements.

7 - Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Additional information relating to the retirement benefit plans is provided in Note 12 - Pensions and other postretirement benefits to the Company's 2014 Annual Consolidated Financial Statements.

Components of net periodic benefit cost (income) for pensions and other postretirement benefits (OPEB)

	Three months ended June 30				Six months ended June 30			
	Pensions		OPEB		Pensions		OPEB	
In millions	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Current service cost	**$ 35**	$ 31	**$ -**	$ -	**$ 78**	$ 66	**$ 1**	$ 1
Interest cost	**162**	177	**2**	4	**325**	355	**5**	6
Expected return on plan assets	**(251)**	(244)			**(502)**	(489)		
Amortization of prior service cost	**1**	1	**1**	-	**2**	2	**1**	1
Amortization of net actuarial loss (gain)	**53**	30	**(1)**	(1)	**114**	62	**(2)**	(2)
Net periodic benefit cost (income) (1)	**$ -**	$ (5)	**$ 2**	$ 3	**$ 17**	$ (4)	**$ 5**	$ 6

(1) In the second quarter of 2015, the Company revised its estimate of full year Net periodic benefit cost (income) for pensions to reflect updated plan demographic information.

Pension contributions for the six months ended June 30, 2015 and 2014 of $92 million and $100 million, respectively, primarily 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. In 2015, the Company expects to make total cash contributions of approximately $115 million for all of the Company's pension plans.

8 - Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the Company's major plans is provided in Note 14 – Stock plans to the Company's 2014 Annual Consolidated Financial Statements.

	Three months ended June 30		Six months ended June 30	
In millions	**2015**	2014	**2015**	2014
Equity settled awards				
Share Units Plan [1]	**$ 9**	$ -	**$ 17**	$ -
Stock option awards	**2**	3	**5**	5
Equity settled awards expense	**$ 11**	$ 3	**$ 22**	$ 5
Cash settled awards				
Share Units Plan [1]	**$ (7)**	$ 31	**$ 2**	$ 45
Voluntary Incentive Deferral Plan [2]	**(5)**	20	**(4)**	21
Cash settled awards expense (recovery)	**$ (12)**	$ 51	**(2)**	66
Total stock-based compensation expense (recovery)	**$ (1)**	$ 54	**$ 20**	$ 71
Tax benefit recognized in income	**$ -**	$ 15	**$ 5**	$ 19

(1) Performance share unit (PSU) awards are granted under the Share Units Plan.

(2) Deferred share unit (DSU) awards are granted under the Voluntary Incentive Deferral Plan.

Equity settled awards

Share Units Plan

Under the Share Units Plan, the Company grants performance share unit (PSU) awards.

PSU-ROIC awards vest from 0% to 200%, subject to the attainment of a return on invested capital (ROIC) performance condition (previously from 0% to 150% for PSUs-ROIC outstanding as at December 31, 2014) over the plan period. Payout of PSU-ROIC awards is conditional upon the attainment of a minimum share price.

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

Equity settled PSUs are settled in common shares of the Company, subject to the attainment of their respective vesting conditions, by way of disbursement from the Share Trusts. The number of shares remitted to the participant upon settlement is equal to the number of PSUs awarded multiplied by their respective vesting factor less amounts withheld to satisfy the participant's minimum statutory withholding tax requirement.

The settlement of PSUs, for senior and executive management employees, is conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation and non-disclosure of confidential information.

Equity settled awards (excluding stock option awards)

	PSUs-ROIC (1)		PSUs-TSR (2)		DSUs (3)	
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value
	In millions		*In millions*		*In millions*	
Outstanding at December 31, 2014	0.9	$ 71.05	-	N/A	1.7	$ 76.29
Granted	0.4	$ 50.87	0.1	$ 114.86	-	$ 81.18
Outstanding at June 30, 2015	**1.3**	**$ 64.32**	**0.1**	**$ 114.86**	**1.7**	**$ 76.44**

(1) The grant date fair value of PSUs-ROIC granted in 2015 of $22 million is calculated using a lattice-based valuation model. As at June 30, 2015, total unrecognized compensation cost related to non-vested PSUs-ROIC outstanding was $30 million and is expected to be recognized over a weighted-average period of 1.7 years.

(2) The grant date fair value of PSUs-TSR granted in 2015 of $16 million is calculated using a Monte Carlo simulation model. As at June 30, 2015, the total unrecognized compensation cost related to non-vested PSUs-TSR outstanding was $11 million and is expected to be recognized over a weighted-average period of 2.1 years.

(3) The grant date fair value of DSUs granted in 2015 of $2 million is calculated using an intrinsic value model and represents deferrals of the annual incentive bonus payment and other eligible incentive payments. As at June 30, 2015, the total unrecognized compensation cost related to non-vested DSUs outstanding was $1 million. The remaining recognition period has not been quantified as it relates solely to the 25% Company grant, representing a minimal number of units. As at June 30, 2015, the aggregate intrinsic value of DSUs outstanding amounted to $127 million.

Stock option awards

	Options outstanding	
	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 2014 (1)	7.5	$ 37.37
Granted (2)	0.8	$ 84.49
Exercised	(0.4)	$ 29.71
Outstanding at June 30, 2015 (1) (3) (4)	**7.9**	**$ 44.41**
Exercisable at June 30, 2015 (1) (4)	**5.6**	**$ 35.14**

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

(2) The grant date fair value of options awarded in 2015 of $11 million ($13.21 per unit) is calculated using the Black-Scholes option-pricing model.

(3) As at June 30, 2015, total unrecognized compensation cost related to non-vested options outstanding was $12 million and is expected to be recognized over a weighted-average period of 2.1 years.

(4) As at June 30, 2015, substantially all stock options were in-the-money. The weighted-average term to expiration of outstanding options was 5.7 years and the weighted-average term to expiration of exercisable stock options was 4.6 years. As at June 30, 2015, the aggregate intrinsic value of in-the-money stock options outstanding amounted to $229 million and aggregate intrinsic value of stock options exercisable amounted to $207 million.

Cash settled awards

Number of units - In millions	PSUs-ROIC (1)	DSUs (2)
Outstanding at December 31, 2014	1.6	0.5
Settled	(0.9)	(0.1)
Outstanding at June 30, 2015	**0.7**	0.4

(1) As at June 30, 2015, total unrecognized compensation cost related to non-vested PSUs-ROIC outstanding was $15 million and is expected to be recognized over a weighted-average period of 1.3 years. As at June 30, 2015 the PSU liability was $52 million ($157 million as at December 31, 2014).

(2) As at June 30, 2015, total unrecognized compensation cost related to non-vested DSUs outstanding was minimal. The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units. As at June 30, 2015 the DSU liability was $36 million ($40 million as at December 31, 2014).

9 - Accumulated other comprehensive loss

In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at March 31, 2015	$ (362)	$ (2,449)	$ 7	$ (2,804)	$ 603	$ (2,201)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange loss on translation of net investment in foreign operations	(120)			(120)	-	(120)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in U.S. subsidiaries [(1)]	102			102	(13)	89
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		52		52 [(2)]	(13) [(3)]	39
Amortization of prior service cost		2		2 [(2)]	(1) [(3)]	1
Other comprehensive income (loss)	(18)	54	-	36	(27)	9
Balance at June 30, 2015	**$ (380)**	**$ (2,395)**	**$ 7**	**$ (2,768)**	**$ 576**	**$ (2,192)**

In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2014	$ (458)	$ (2,510)	$ 7	$ (2,961)	$ 534	$ (2,427)
Other comprehensive income (loss) before reclassifications:						
Foreign exchange gain on translation of net investment in foreign operations	622			622	-	622
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in U.S. subsidiaries [(1)]	(544)			(544)	72	(472)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		112		112 [(2)]	(29) [(3)]	83
Amortization of prior service cost		3		3 [(2)]	(1) [(3)]	2
Other comprehensive income	78	115	-	193	42	235
Balance at June 30, 2015	**$ (380)**	**$ (2,395)**	**$ 7**	**$ (2,768)**	**$ 576**	**$ (2,192)**

(1) The Company designates US dollar-denominated 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 debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(2) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 7 - Pensions and other postretirement benefits.

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

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Derivative instruments		Total before tax		Income tax recovery (expense)		Total net of tax
Balance at March 31, 2014	$	(508)	$	(1,482)	$	8	$	(1,982)	$	214	$	(1,768)
Other comprehensive income (loss) before reclassifications:												
Foreign exchange loss on translation of net investment in foreign operations		(257)						(257)		-		(257)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in U.S. subsidiaries (1)		227						227		(31)		196
Amounts reclassified from Accumulated other comprehensive loss:												
Amortization of net actuarial loss				29				29 (2)		(7) (3)		22
Amortization of prior service cost				1				1 (2)		-		1
Other comprehensive income (loss)		(30)		30		-		-		(38)		(38)
Balance at June 30, 2014	$	(538)	$	(1,452)	$	8	$	(1,982)	$	176	$	(1,806)

In millions		Foreign currency translation adjustments		Pension and other postretirement benefit plans		Derivative instruments		Total before tax		Income tax recovery (expense)		Total net of tax
Balance at December 31, 2013	$	(533)	$	(1,515)	$	8	$	(2,040)	$	190	$	(1,850)
Other comprehensive income (loss) before reclassifications:												
Foreign exchange gain on translation of net investment in foreign operations		19						19		-		19
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in U.S. subsidiaries (1)		(24)						(24)		1		(23)
Amounts reclassified from Accumulated other comprehensive loss:												
Amortization of net actuarial loss				60				60 (2)		(15) (3)		45
Amortization of prior service cost				3				3 (2)		-		3
Other comprehensive income (loss)		(5)		63		-		58		(14)		44
Balance at June 30, 2014	$	(538)	$	(1,452)	$	8	$	(1,982)	$	176	$	(1,806)

(1) The Company designates US dollar-denominated 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 debt are recorded in Accumulated other comprehensive loss, which minimizes volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(2) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 7 - Pensions and other postretirement benefits.

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

10 - Major commitments and contingencies

Commitments

As at June 30, 2015, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of $1,525 million ($1,054 million as at December 31, 2014). The Company also has estimated remaining commitments of approximately $527 million (US$422 million), in relation to the U.S. federal government legislative requirement to implement Positive Train Control (PTC).

In addition, the Company has estimated remaining commitments, through to December 31, 2016, of approximately $60 million (US$48 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company. These commitments are for railroad infrastructure improvements, grade separation projects as well as commitments under a series of agreements with individual communities and a comprehensive voluntary mitigation program established to address surrounding municipalities' concerns.

Contingencies

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

As at June 30, 2015, the Company had aggregate reserves for personal injury and other claims of $305 million, of which $49 million was recorded as a current liability ($298 million as at December 31, 2014, of which $48 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at June 30, 2015, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity in a particular quarter or fiscal year.

Environmental matters

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

The Company has identified 245 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 7 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. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

As at June 30, 2015, the Company had aggregate accruals for environmental costs of $133 million, of which $67 million was recorded as a current liability ($114 million as at December 31, 2014, of which $45 million was recorded as a current liability). The Company anticipates that the majority of the liability at June 30, 2015 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its accruals to be adequate.

Guarantees and indemnifications

A list of indemnifications found in various types of contracts with third parties is provided in Note 16 – Major commitments and contingencies to the Company's 2014 Annual Consolidated Financial Statements.

Guarantees

(a) Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2015 and 2022, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at June 30, 2015, the maximum exposure in respect of these guarantees was $195 million ($194 million as at December 31, 2014). There are no recourse provisions to recover any amounts from third parties.

(b) Other guarantees

As at June 30, 2015, the Company, including certain of its subsidiaries, had granted $485 million ($487 million as at December 31, 2014) of irrevocable standby letters of credit and $115 million ($106 million as at December 31, 2014) of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at June 30, 2015, the maximum potential liability under these guarantee instruments was $600 million ($593 million as at December 31, 2014), of which $524 million ($525 million as at December 31, 2014) related to workers' compensation and other employee benefit liabilities and $76 million ($68 million as at December 31, 2014) related to other liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The guarantee instruments expire at various dates between 2015 and 2018.

The Company had not recorded a liability as at June 30, 2015 with respect to its guarantee instruments as they related to the Company's future performance and the Company did not expect to make any payments under its guarantee instruments.

11 - Financial instruments

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes. As at June 30, 2015, the Company had outstanding foreign exchange forward contracts with a notional value of US$350 million (US$350 million as at December 31, 2014). Changes in the fair value of forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statement of Income as they occur. For the three and six months ended June 30, 2015, the Company recorded a pre-tax loss of $7 million and a pre-tax gain of $29 million, respectively, related to foreign exchange forward contracts, compared to nil and a pre-tax gain of $10 million, respectively, for the same periods in 2014. As at June 30, 2015, the Company recorded an unrealized gain of $38 million ($9 million as at December 31, 2014) related to foreign exchange forward contracts in Other current assets in the Consolidated Balance Sheet.

Fair value of financial instruments

The carrying amounts of Cash and cash equivalents, Restricted cash and cash equivalents, Accounts receivable, Other current assets, and Accounts payable and other, approximate fair value.

Included in Intangible and other assets are equity investments for which the carrying amount 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. As at June 30, 2015, the Company's investments had a carrying amount of $63 million ($58 million as at December 31, 2014) and a fair value of $196 million ($183 million as at December 31, 2014).

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 June 30, 2015, the Company's debt had a carrying amount of $9,344 million ($8,409 million as at December 31, 2014) and a fair value of $10,488 million ($9,767 million as at December 31, 2014).

Additional information related to the fair value of 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.

Selected Railroad Statistics - unaudited

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Financial measures				
Key financial performance indicators				
Total revenues *($ millions)*	**3,125**	3,116	**6,223**	5,809
Rail freight revenues *($ millions)*	**2,927**	2,942	**5,907**	5,520
Operating income *($ millions)*	**1,362**	1,258	**2,425**	2,078
Adjusted diluted earnings per share *($)* (1)	**1.15**	1.03	**2.01**	1.68
Free cash flow *($ millions)* (1)	**530**	776	**1,051**	1,270
Property additions *($ millions)*	**659**	482	**1,127**	730
Share repurchases *($ millions)*	**404**	365	**833**	730
Dividends per share *($)*	**0.3125**	0.2500	**0.6250**	0.5000
Financial position				
Total assets *($ millions)*	**33,605**	30,634	**33,605**	30,634
Total liabilities *($ millions)*	**19,651**	17,291	**19,651**	17,291
Shareholders' equity *($ millions)*	**13,954**	13,343	**13,954**	13,343
Financial ratio				
Operating ratio *(%)*	**56.4**	59.6	**61.0**	64.2
Operational measures (2)				
Statistical operating data				
Gross ton miles (GTM) *(millions)*	**110,709**	116,243	**222,099**	217,719
Revenue ton miles (RTM) *(millions)*	**55,713**	60,081	**112,842**	113,415
Carloads *(thousands)*	**1,414**	1,463	**2,767**	2,702
Route miles *(includes Canada and the U.S.)*	**19,500**	19,800	**19,500**	19,800
Employees *(end of period)*	**24,761**	24,875	**24,761**	24,875
Employees *(average for the period)*	**25,177**	24,565	**25,206**	24,161
Key operating measures				
Rail freight revenue per RTM *(cents)*	**5.25**	4.90	**5.23**	4.87
Rail freight revenue per carload *($)*	**2,070**	2,011	**2,135**	2,043
GTMs per average number of employees *(thousands)*	**4,397**	4,732	**8,811**	9,011
Operating expenses per GTM *(cents)*	**1.59**	1.60	**1.71**	1.71
Labor and fringe benefits expense per GTM *(cents)*	**0.49**	0.48	**0.54**	0.53
Diesel fuel consumed *(US gallons in millions)*	**106.0**	112.3	**220.3**	219.2
Average fuel price *($ per US gallon)*	**2.73**	3.84	**2.79**	3.90
GTMs per US gallon of fuel consumed	**1,044**	1,035	**1,008**	993
Terminal dwell *(hours)*	**14.6**	15.4	**15.7**	17.4
Train velocity *(miles per hour)*	**26.2**	26.2	**25.5**	25.1
Safety indicators (3)				
Injury frequency rate *(per 200,000 person hours)*	**1.46**	1.47	**1.55**	1.78
Accident rate *(per million train miles)*	**2.49**	2.42	**2.48**	2.40

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

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

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

Supplementary Information - unaudited

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) [(1)]	**2015**	2014	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) [(1)]
Revenues *(millions of dollars)*								
Petroleum and chemicals	**586**	564	4%	(4%)	**1,229**	1,132	9%	-
Metals and minerals	**351**	370	(5%)	(14%)	**728**	678	7%	(2%)
Forest products	**424**	393	8%	(1%)	**842**	732	15%	6%
Coal	**148**	201	(26%)	(32%)	**307**	383	(20%)	(26%)
Grain and fertilizers	**489**	526	(7%)	(12%)	**1,024**	957	7%	1%
Intermodal	**728**	716	2%	(3%)	**1,417**	1,337	6%	2%
Automotive	**201**	172	17%	7%	**360**	301	20%	9%
Total rail freight revenues	**2,927**	2,942	(1%)	(7%)	**5,907**	5,520	7%	-
Other revenues	**198**	174	14%	5%	**316**	289	9%	1%
Total revenues	**3,125**	3,116	-	(7%)	**6,223**	5,809	7%	-
Revenue ton miles *(millions)*								
Petroleum and chemicals	**12,425**	12,779	(3%)	(3%)	**26,042**	25,658	1%	1%
Metals and minerals	**5,430**	6,018	(10%)	(10%)	**11,141**	11,027	1%	1%
Forest products	**7,605**	7,582	-	-	**14,847**	14,137	5%	5%
Coal	**3,916**	5,733	(32%)	(32%)	**8,126**	11,027	(26%)	(26%)
Grain and fertilizers	**11,783**	14,073	(16%)	(16%)	**24,727**	25,386	(3%)	(3%)
Intermodal	**13,493**	13,048	3%	3%	**26,086**	24,709	6%	6%
Automotive	**1,061**	848	25%	25%	**1,873**	1,471	27%	27%
Total revenue ton miles	**55,713**	60,081	(7%)	(7%)	**112,842**	113,415	(1%)	(1%)
Rail freight revenue / RTM *(cents)*								
Petroleum and chemicals	**4.72**	4.41	7%	(1%)	**4.72**	4.41	7%	(1%)
Metals and minerals	**6.46**	6.15	5%	(4%)	**6.53**	6.15	6%	(3%)
Forest products	**5.58**	5.18	8%	(1%)	**5.67**	5.18	9%	1%
Coal	**3.78**	3.51	8%	(1%)	**3.78**	3.47	9%	1%
Grain and fertilizers	**4.15**	3.74	11%	5%	**4.14**	3.77	10%	4%
Intermodal	**5.40**	5.49	(2%)	(6%)	**5.43**	5.41	-	(4%)
Automotive	**18.94**	20.28	(7%)	(14%)	**19.22**	20.46	(6%)	(14%)
Total rail freight revenue per RTM	**5.25**	4.90	7%	-	**5.23**	4.87	7%	-
Carloads *(thousands)*								
Petroleum and chemicals	**158**	160	(1%)	(1%)	**322**	321	-	-
Metals and minerals	**243**	267	(9%)	(9%)	**480**	474	1%	1%
Forest products	**112**	113	(1%)	(1%)	**221**	213	4%	4%
Coal	**105**	141	(26%)	(26%)	**220**	266	(17%)	(17%)
Grain and fertilizers	**147**	172	(15%)	(15%)	**301**	312	(4%)	(4%)
Intermodal	**581**	547	6%	6%	**1,103**	1,004	10%	10%
Automotive	**68**	63	8%	8%	**120**	112	7%	7%
Total carloads	**1,414**	1,463	(3%)	(3%)	**2,767**	2,702	2%	2%
Rail freight revenue / carload *(dollars)*								
Petroleum and chemicals	**3,709**	3,525	5%	(3%)	**3,817**	3,526	8%	-
Metals and minerals	**1,444**	1,386	4%	(5%)	**1,517**	1,430	6%	(3%)
Forest products	**3,786**	3,478	9%	-	**3,810**	3,437	11%	2%
Coal	**1,410**	1,426	(1%)	(9%)	**1,395**	1,440	(3%)	(10%)
Grain and fertilizers	**3,327**	3,058	9%	3%	**3,402**	3,067	11%	5%
Intermodal	**1,253**	1,309	(4%)	(8%)	**1,285**	1,332	(4%)	(8%)
Automotive	**2,956**	2,730	8%	(1%)	**3,000**	2,688	12%	2%
Total rail freight revenue per carload	**2,070**	2,011	3%	(4%)	**2,135**	2,043	5%	(2%)

Statistical operating data and related key operating measures are based on estimated data available at such time and are subject to change as more complete information becomes available.

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

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 2015 unaudited Interim Consolidated Financial Statements, and Notes thereto.

For the three and six months ended June 30, 2015, the Company reported adjusted net income of $928 million, or $1.15 per diluted share and $1,632 million, or $2.01 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2015 exclude a deferred income tax expense of $42 million ($0.05 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate.

For the three and six months ended June 30, 2014, the Company reported adjusted net income of $847 million, or $1.03 per diluted share and $1,398 million, or $1.68 per diluted share, respectively. The adjusted figures for the six months ended June 30, 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).

The following table provides a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2015 and 2014, to the adjusted performance measures presented herein.

	Three months ended June 30		**Six months ended June 30**	
In millions, except per share data	**2015**	2014	**2015**	2014
Net income as reported	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Adjustments:				
Other income	**-**	-	**-**	(80)
Income tax expense	**42**	-	**42**	8
Adjusted net income	**$ 928**	$ 847	**$ 1,632**	$ 1,398
Basic earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted basic earnings per share	**$ 1.15**	$ 1.03	**$ 2.02**	$ 1.69
Diluted earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted diluted earnings per share	**$ 1.15**	$ 1.03	**$ 2.01**	$ 1.68

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 $1.23 per US$1.00, for both the three and six months ended June 30, 2015, and $1.09 and $1.10 per US$1.00, respectively, for the three and six months ended June 30, 2014.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2015 would have been lower by $64 million, or $0.08 per diluted share and $120 million, or $0.15 per diluted share, respectively.

Non-GAAP Measures - unaudited

Free cash flow

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

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

	Three months ended June 30		Six months ended June 30	
In millions	**2015**	2014	**2015**	2014
Net cash provided by operating activities	**$ 1,203**	$ 1,273	**$ 2,195**	$ 1,918
Net cash used in investing activities	**(662)**	(494)	**(1,143)**	(668)
Net cash provided before financing activities	**541**	779	**1,052**	1,250
Adjustment: Change in restricted cash and cash equivalents	**(11)**	(3)	**(1)**	20
Free cash flow	**$ 530**	$ 776	**$ 1,051**	$ 1,270

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

June 30,	**2015**	2014
Debt-to-total capitalization ratio (1)	**40.1%**	36.5%
Add: Impact of present value of operating lease commitments (2)	**1.6%**	1.6%
Adjusted debt-to-total capitalization ratio	**41.7%**	38.1%

Adjusted debt-to-adjusted EBITDA multiple

In millions, unless otherwise indicated — *Twelve months ended June 30,*	**2015**	2014
Debt	**$ 9,344**	$ 7,661
Add: Present value of operating lease commitments (2)	**647**	563
Adjusted debt	**9,991**	8,224
Operating income	**4,971**	4,129
Add: Depreciation and amortization	**1,118**	1,008
EBITDA (excluding Other income)	**6,089**	5,137
Add: Deemed interest on operating leases	**30**	28
Adjusted EBITDA	**$ 6,119**	$ 5,165
Adjusted debt-to-adjusted EBITDA multiple	**1.63 times**	1.59 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 June 30, 2015, as compared to the same period in 2014, was mainly due to an increased debt level, primarily caused by a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's adjusted debt-to-adjusted EBITDA multiple also increased, driven by a higher debt level as at June 30, 2015, which was partly offset by a higher operating income earned for the twelve months ended June 30, 2015, as compared to the twelve months ended June 30, 2014.

Management's Discussion and Analysis

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 2015 unaudited Interim Consolidated Financial Statements and Notes thereto as well as the 2014 Annual Consolidated Financial Statements, Notes thereto and the 2014 Annual MD&A.

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. For the six months ended June 30, 2015, 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, 34% transborder traffic, 18% Canadian domestic traffic and 31% overseas traffic. The Company is the originating carrier for approximately 85% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Strategy overview

A description of the Company's Strategy is provided in the section entitled Strategy overview of the Company's 2014 Annual MD&A.

2015 second quarter highlights

- The Company attained record operating income, net income, earnings per share and operating ratio.
- The Company paid quarterly dividends of $0.3125 per share, representing an increase of 25% when compared to 2014, amounting to $250 million.
- The Company repurchased 5.3 million common shares, returning over $404 million to its shareholders, under its current share repurchase program, which allows for the repurchase of up to 28.0 million common shares between October 24, 2014 and October 23, 2015.

Growth opportunities and assumptions

The Company sees opportunities for growth in intermodal traffic, commodities tied to U.S. housing construction and automotive sales. In the longer-term, the Company also sees opportunities relating to energy-related commodities and fertilizers. The Company now expects North American industrial production to increase by approximately one percent and assumes continued improvements in U.S. housing and automotive markets. 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.

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

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 entitled Business risks of this MD&A and the Company's 2014 Annual MD&A for detailed information on major risk factors.

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

Financial highlights

In millions, except percentage and per share data	Three months ended June 30 **2015**	2014	Six months ended June 30 **2015**	2014
Revenues	**$ 3,125**	$ 3,116	**$ 6,223**	$ 5,809
Operating income	**$ 1,362**	$ 1,258	**$ 2,425**	$ 2,078
Net income	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Adjusted net income [(1)]	**$ 928**	$ 847	**$ 1,632**	$ 1,398
Basic earnings per share	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Adjusted basic earnings per share [(1)]	**$ 1.15**	$ 1.03	**$ 2.02**	$ 1.69
Diluted earnings per share	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77
Adjusted diluted earnings per share [(1)]	**$ 1.15**	$ 1.03	**$ 2.01**	$ 1.68
Dividends declared per share	**$ 0.3125**	$ 0.2500	**$ 0.6250**	$ 0.5000
Total assets	**$ 33,605**	$ 30,634	**$ 33,605**	$ 30,634
Total long-term liabilities	**$ 16,553**	$ 15,069	**$ 16,553**	$ 15,069
Operating ratio	**56.4%**	59.6%	**61.0%**	64.2%
Free cash flow [(2)]	**$ 530**	$ 776	**$ 1,051**	$ 1,270

(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 - Free cash flow for an explanation of this non-GAAP measure.

Second quarter and first half of 2015 compared to corresponding periods in 2014

Net income for the second quarter of 2015 was $886 million, an increase of $39 million, or 5%, when compared to the same period in 2014, with diluted earnings per share rising 7% to $1.10. The $39 million increase was mainly due to a higher Operating income net of the related income taxes. Net income for the six months ended June 30, 2015 was $1,590 million, an increase of $120 million, or 8%, when compared to the same period in 2014, with diluted earnings per share rising 11% to $1.96. The $120 million increase was mainly due to a higher Operating income net of the related income taxes, partly offset by a decrease in Other income.

Operating income for the quarter ended June 30, 2015, increased by $104 million, or 8%, to $1,362 million. Operating income for the six months ended June 30, 2015 increased by $347 million, or 17%, to $2,425 million. The operating ratio, defined as operating expenses as a percentage of revenues, was 56.4% in the second quarter of 2015, compared to 59.6% in the second quarter of 2014, a 3.2-point improvement. The six-month operating ratio was 61.0% in 2015, compared to 64.2% in 2014, a 3.2-point improvement.

Revenues for the quarter ended June 30, 2015, increased by $9 million to $3,125 million, mainly attributable to:

- the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues;
- freight rate increases; and
- strong overseas intermodal demand and higher volumes of finished vehicle traffic.

These factors were almost entirely offset by a lower applicable fuel surcharge rate; lower volumes of Canadian grain versus the prior year's record crop; decreased shipments of coal due to weaker global demand; reduced shipments of energy-related commodities including crude oil, frac sand and drilling pipe; as well as lower volumes of semi-finished steel products and iron ore.

Revenues for the first half of 2015, increased by $414 million or 7%, to $6,223 million, mainly due to:

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

These factors were partly offset by a lower applicable fuel surcharge rate and decreased shipments of coal due to weaker global demand.

Operating expenses for the quarter ended June 30, 2015, decreased by $95 million, or 5%, to $1,763 million, primarily due to:

- lower fuel costs; and
- lower labor and fringe benefits expense.

These factors were partly offset by the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses and by increased purchased services and material expense.

Operating expenses for the first half of 2015, increased by $67 million, or 2%, to $3,798 million, primarily due to:

- the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses;
- increased purchased services and material expense; and
- increased casualty and other expense.

These factors were partly offset by lower fuel costs.

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 2015 unaudited Interim Consolidated Financial Statements, and Notes thereto.

For the three and six months ended June 30, 2015, the Company reported adjusted net income of $928 million, or $1.15 per diluted share and $1,632 million, or $2.01 per diluted share, respectively. The adjusted figures for the three and six months ended June 30, 2015 exclude a deferred income tax expense of $42 million ($0.05 per diluted share) resulting from the enactment of a higher provincial corporate income tax rate.

For the three and six months ended June 30, 2014, the Company reported adjusted net income of $847 million, or $1.03 per diluted share and $1,398 million, or $1.68 per diluted share, respectively. The adjusted figures for the six months ended June 30, 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).

The following table provides a reconciliation of net income and earnings per share, as reported for the three and six months ended June 30, 2015 and 2014, to the adjusted performance measures presented herein.

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2015**	2014	**2015**	2014
Net income as reported	**$ 886**	$ 847	**$ 1,590**	$ 1,470
Adjustments:				
Other income	**-**	-	**-**	(80)
Income tax expense	**42**	-	**42**	8
Adjusted net income	**$ 928**	$ 847	**$ 1,632**	$ 1,398
Basic earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.97**	$ 1.78
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted basic earnings per share	**$ 1.15**	$ 1.03	**$ 2.02**	$ 1.69
Diluted earnings per share as reported	**$ 1.10**	$ 1.03	**$ 1.96**	$ 1.77
Impact of adjustments, per share	**0.05**	-	**0.05**	(0.09)
Adjusted diluted earnings per share	**$ 1.15**	$ 1.03	**$ 2.01**	$ 1.68

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 $1.23 per US$1.00, for both the three and six months ended June 30, 2015, and $1.09 and $1.10 per US$1.00, respectively, for the three and six months ended June 30, 2014.

On a constant currency basis, the Company's net income for the three and six months ended June 30, 2015 would have been lower by $64 million, or $0.08 per diluted share and $120 million, or $0.15 per diluted share, respectively.

Revenues

In millions, unless otherwise indicated	Three months ended June 30 2015	2014	% Change	% Change at constant currency	Six months ended June 30 2015	2014	% Change	% Change at constant currency
Rail freight revenues	**$ 2,927**	$ 2,942	(1%)	(7%)	**$ 5,907**	$ 5,520	7%	-
Other revenues	**198**	174	14%	5%	**316**	289	9%	1%
Total revenues	**$ 3,125**	$ 3,116	-	(7%)	**$ 6,223**	$ 5,809	7%	-
Rail freight revenues								
Petroleum and chemicals	**$ 586**	$ 564	4%	(4%)	**$ 1,229**	$ 1,132	9%	-
Metals and minerals	**351**	370	(5%)	(14%)	**728**	678	7%	(2%)
Forest products	**424**	393	8%	(1%)	**842**	732	15%	6%
Coal	**148**	201	(26%)	(32%)	**307**	383	(20%)	(26%)
Grain and fertilizers	**489**	526	(7%)	(12%)	**1,024**	957	7%	1%
Intermodal	**728**	716	2%	(3%)	**1,417**	1,337	6%	2%
Automotive	**201**	172	17%	7%	**360**	301	20%	9%
Total rail freight revenues	**$ 2,927**	$ 2,942	(1%)	(7%)	**$ 5,907**	$ 5,520	7%	-
Revenue ton miles (RTMs) *(millions)*	**55,713**	60,081	(7%)	(7%)	**112,842**	113,415	(1%)	(1%)
Rail freight revenue/RTM *(cents)*	**5.25**	4.90	7%	-	**5.23**	4.87	7%	-

Revenues for the quarter ended June 30, 2015 totaled $3,125 million compared to $3,116 million in the same period in 2014, an increase of $9 million. Revenues for the first half of 2015 were $6,223 million, an increase of $414 million, or 7%, when compared to the same period in 2014.

The increase in the second quarter of 2015 was mainly a result of the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; freight rate increases; and strong overseas intermodal demand and higher volumes of finished vehicle traffic. These factors were almost entirely offset by a lower applicable fuel surcharge rate; lower volumes of Canadian grain versus the prior year's record crop; decreased shipments of coal due to weaker global demand; reduced shipments of energy-related commodities including crude oil, frac sand and drilling pipe; as well as lower volumes of semi-finished steel products and iron ore.

The increase in the first half of 2015 was mainly attributable to the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; freight rate increases; strong overseas intermodal demand, increased shipments of lumber and panels to U.S. markets, and higher volumes of finished vehicle traffic. These factors were partly offset by a lower applicable fuel surcharge rate and decreased shipments of coal due to weaker global demand.

Fuel surcharge revenues decreased by $171 million in the second quarter and $230 million in the first six months of 2015 when compared to the same periods in 2014, mainly due to lower applicable fuel surcharge rates and lower freight volumes of most commodity groups, partly offset by higher intermodal and automotive freight volumes and the positive translation impact of the weaker Canadian dollar.

Revenue ton miles (RTMs), measuring the relative weight and distance of rail freight transported by the Company, declined by 7% in the second quarter and 1% in the first half of 2015, relative to the same periods in 2014.

Rail freight revenue per RTM, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 7% in both the second quarter and first half of 2015, when compared to the same periods in 2014, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate and an increase in the average length of haul.

Petroleum and chemicals

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 586**	$ 564	4%	(4%)	**$ 1,229**	$ 1,132	9%	-
RTMs *(millions)*	**12,425**	12,779	(3%)	(3%)	**26,042**	25,658	1%	1%
Revenue/RTM *(cents)*	**4.72**	4.41	7%	(1%)	**4.72**	4.41	7%	(1%)

Revenues for this commodity group increased by $22 million, or 4%, in the second quarter and $97 million, or 9%, in the first half of 2015 when compared to the same periods in 2014. The increases in both the second quarter and first half of 2015 were mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases and higher shipments of propane. These factors were partly offset by a lower applicable fuel surcharge rate and decreased crude oil shipments.

Revenue per RTM increased by 7% in the second quarter and first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

Metals and minerals

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 351**	$ 370	(5%)	(14%)	**$ 728**	$ 678	7%	(2%)
RTMs *(millions)*	**5,430**	6,018	(10%)	(10%)	**11,141**	11,027	1%	1%
Revenue/RTM *(cents)*	**6.46**	6.15	5%	(4%)	**6.53**	6.15	6%	(3%)

Revenues for this commodity group decreased by $19 million, or 5%, in the second quarter and increased by $50 million, or 7%, in the first half of 2015 when compared to the same periods in 2014. The decrease in the second quarter of 2015 was mainly due to reduced shipments of energy-related commodities including frac sand and drilling pipe due to a reduction in oil and gas activities, lower volumes of semi-finished steel products and iron ore; and a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases. The increase in the first half of 2015 was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes of frac sand in the first quarter. These factors were partly offset by a lower applicable fuel surcharge rate and decreased shipments of drilling pipe and semi-finished steel products.

Revenue per RTM increased by 5% in the second quarter and 6% in the first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and a decrease in the average length of haul, partly offset by a lower applicable fuel surcharge rate.

Forest products

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 424**	$ 393	8%	(1%)	**$ 842**	$ 732	15%	6%
RTMs *(millions)*	**7,605**	7,582	-	-	**14,847**	14,137	5%	5%
Revenue/RTM *(cents)*	**5.58**	5.18	8%	(1%)	**5.67**	5.18	9%	1%

Revenues for this commodity group increased by $31 million, or 8%, in the second quarter and $110 million, or 15%, in the first half of 2015 when compared to the same periods in 2014. The increases in both the second quarter and first half of 2015 were mainly due to the positive translation impact of a weaker Canadian dollar; freight rate increases, higher shipments of lumber and panels to U.S. markets and increased offshore export shipments of lumber and wood pulp. These factors were partly offset by a lower applicable fuel surcharge rate and decreased shipments of newsprint.

Revenue per RTM increased by 8% in the second quarter and 9% in the first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar and freight rate increases, partly offset by a lower applicable fuel surcharge rate.

Coal

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 148**	$ 201	(26%)	(32%)	**$ 307**	$ 383	(20%)	(26%)
RTMs *(millions)*	**3,916**	5,733	(32%)	(32%)	**8,126**	11,027	(26%)	(26%)
Revenue/RTM *(cents)*	**3.78**	3.51	8%	(1%)	**3.78**	3.47	9%	1%

Revenues for this commodity group decreased by $53 million, or 26%, in the second quarter and $76 million, or 20%, in the first half of 2015 when compared to the same periods in 2014. The decreases in both the second quarter and first half of 2015 were mainly due to lower shipments of metallurgical and thermal coal through west coast ports, decreased volumes of thermal coal to U.S. utilities; and a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Revenue per RTM increased by 8% in the second quarter and 9% in the first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and a significant decrease in the average length of haul; partly offset by a lower applicable fuel surcharge rate.

Grain and fertilizers

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 489**	$ 526	(7%)	(12%)	**$ 1,024**	$ 957	7%	1%
RTMs *(millions)*	**11,783**	14,073	(16%)	(16%)	**24,727**	25,386	(3%)	(3%)
Revenue/RTM *(cents)*	**4.15**	3.74	11%	5%	**4.14**	3.77	10%	4%

Revenues for this commodity group decreased by $37 million, or 7%, in the second quarter and increased by $67 million, or 7%, in the first half of 2015 when compared to the same periods in 2014. The decrease in the second quarter of 2015 was mainly due to lower volumes of Canadian grain exports including canola and wheat, lower North American shipments of corn and potash; as well as a lower applicable fuel surcharge rate. These factors were partly offset by the positive translation impact of a weaker Canadian dollar and freight rate increases. The increase in the first half of 2015 was mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases, and higher volumes of Canadian wheat in the first quarter. These factors were partly offset by a lower applicable fuel surcharge rate as well as reduced export shipments of canola, soybeans and corn.

Revenue per RTM increased by 11% in the second quarter and 10% in the first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar, freight rate increases and a decrease in the average length of haul in the second quarter, partly offset by a lower applicable fuel surcharge rate.

Intermodal

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 728**	$ 716	2%	(3%)	**$ 1,417**	$ 1,337	6%	2%
RTMs *(millions)*	**13,493**	13,048	3%	3%	**26,086**	24,709	6%	6%
Revenue/RTM *(cents)*	**5.40**	5.49	(2%)	(6%)	**5.43**	5.41	-	(4%)

Revenues for this commodity group increased by $12 million, or 2%, in the second quarter and $80 million, or 6%, in the first half of 2015 when compared to the same periods in 2014. The increases in both the second quarter and first half of 2015 were mainly due to the positive translation impact of a weaker Canadian dollar, higher shipments through the Port of Prince Rupert, and freight rate increases. These factors were partly offset by a lower applicable fuel surcharge rate.

Revenue per RTM decreased by 2% in the second quarter and remained flat in the first half of 2015 when compared to the same periods in 2014, mainly due to a lower applicable fuel surcharge and 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

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 201**	$ 172	17%	7%	**$ 360**	$ 301	20%	9%
RTMs *(millions)*	**1,061**	848	25%	25%	**1,873**	1,471	27%	27%
Revenue/RTM *(cents)*	**18.94**	20.28	(7%)	(14%)	**19.22**	20.46	(6%)	(14%)

Revenues for this commodity group increased by $29 million, or 17%, in the second quarter and $59 million, or 20%, in the first half of 2015 when compared to the same periods in 2014. The increases in both the second quarter and first half of 2015 were mainly due to higher volumes of domestic finished vehicle traffic as a result of new business, as well as higher import volumes via the Port of Vancouver; and the positive translation impact of a weaker Canadian dollar. These factors were partly offset by a lower applicable fuel surcharge rate.

Revenue per RTM decreased by 7% in the second quarter and 6% in the first half of 2015 when compared to the same periods in 2014, mainly due to a lower applicable fuel surcharge rate and a significant increase in the average length of haul, partly offset by the positive translation impact of a weaker Canadian dollar.

Other revenues

	Three months ended June 30				Six months ended June 30			
	2015	2014	% Change	% Change at constant currency	**2015**	2014	% Change	% Change at constant currency
Revenues *(millions)*	**$ 198**	$ 174	14%	5%	**$ 316**	$ 289	9%	1%

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.

Other revenues increased by $24 million, or 14%, in the second quarter and $27 million, or 9%, in the first half of 2015 when compared to the same periods in 2014, mainly due to the positive translation impact of a weaker Canadian dollar as well as higher revenues from vessels and docks.

Operating expenses

Operating expenses for the second quarter of 2015 amounted to $1,763 million compared to $1,858 million in the same quarter of 2014. Operating expenses for the first half of 2015 amounted to $3,798 million compared to $3,731 million in the same period of 2014. The decrease of $95 million, or 5%, in the second quarter of 2015 was mainly due to lower fuel costs and lower labor and fringe benefits expense, partly offset by the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses as well as increased purchased services and material expense. The increase of $67 million, or 2%, in the first half of 2015 was mainly due to the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses, increased purchased services and material expense as well as increased casualty and other expense, partly offset by lower fuel costs.

	Three months ended June 30						Six months ended June 30					
				% Change at constant currency	Percentage of revenues					% Change at constant currency	Percentage of revenues	
In millions	**2015**	2014	% Change		**2015**	2014	**2015**	2014	% Change		**2015**	2014
Labor and fringe benefits	**$ 542**	$ 560	3%	8%	**17.3%**	18.0%	**$ 1,210**	$ 1,147	(5%)	(1%)	**19.4%**	19.7%
Purchased services and material	**434**	390	(11%)	(5%)	**13.9%**	12.5%	**891**	778	(15%)	(9%)	**14.3%**	13.4%
Fuel	**327**	484	32%	40%	**10.5%**	15.5%	**688**	952	28%	36%	**11.1%**	16.4%
Depreciation and amortization	**285**	257	(11%)	(6%)	**9.1%**	8.2%	**581**	513	(13%)	(9%)	**9.3%**	8.8%
Equipment rents	**83**	84	1%	11%	**2.7%**	2.7%	**177**	161	(10%)	-	**2.9%**	2.8%
Casualty and other	**92**	83	(11%)	-	**2.9%**	2.7%	**251**	180	(39%)	(30%)	**4.0%**	3.1%
Total operating expenses	**$ 1,763**	$ 1,858	5%	11%	**56.4%**	59.6%	**$ 3,798**	$ 3,731	(2%)	4%	**61.0%**	64.2%

Labor and fringe benefits

Labor and fringe benefits expense decreased by $18 million, or 3%, in the second quarter of 2015 and increased by $63 million, or 5%, in the first half of 2015 when compared to the same periods in 2014. The decrease in the second quarter was primarily a result of lower incentive-based compensation expense, partly offset by higher headcount, general wage increases and the negative translation impact of the weaker Canadian dollar. The increase in the six-month period was primarily a result of the negative translation impact of the weaker Canadian dollar, higher headcount, general wage increases, as well as increased pension expense, partly offset by lower incentive-based compensation expense.

Purchased services and material

Purchased services and material expense increased by $44 million, or 11%, in the second quarter of 2015 and $113 million, or 15%, in the first half of 2015 when compared to the same periods in 2014. The increase in the second quarter was mainly due to the negative translation impact of the weaker Canadian dollar, higher repairs and maintenance as well as increased accident costs. The increase in the six-month period was mainly due to the negative translation impact of the weaker Canadian dollar as well as higher repairs and maintenance.

Fuel

Fuel expense decreased by $157 million, or 32%, in the second quarter of 2015 and $264 million, or 28%, in the first half of 2015 when compared to the same periods in 2014. The decreases were primarily due to lower fuel prices partly offset by the negative translation impact of the weaker Canadian dollar.

Depreciation and amortization

Depreciation and amortization expense increased by $28 million, or 11%, in the second quarter of 2015 and $68 million, or 13%, in the first half of 2015 when compared to the same periods in 2014. The increases were mainly due to net capital additions and the negative translation impact of the weaker Canadian dollar.

Equipment rents

Equipment rents expense decreased by $1 million, or 1%, in the second quarter of 2015 and increased by $16 million, or 10%, in the first half of 2015 when compared to the same periods in 2014. The decrease in the second quarter was primarily due to higher income from the use of the Company's equipment by other railroads mainly offset by the negative translation impact of the weaker Canadian dollar and increased car hire expense. The increase in the six-month period was primarily due to the negative translation impact of the weaker Canadian dollar and increased car hire expense, partly offset by higher income from the use of the Company's equipment by other railroads.

Casualty and other

Casualty and other expense increased by $9 million, or 11%, in the second quarter of 2015 and $71 million, or 39%, in the first half of 2015 when compared to the same periods in 2014. The increase in the second quarter was mainly due to higher accident-related costs and the negative impact of the weaker Canadian dollar. The increase in the six-month period was mainly due to higher accident-related costs, the negative impact of the weaker Canadian dollar as well as higher workers' compensation expense.

Other income and expenses

Interest expense

Interest expense was $105 million for the three months ended June 30, 2015 and $209 million for the six months ended June 30, 2015, compared to $91 million and $183 million, respectively, for the same periods in 2014. The increases were mainly due to the negative translation impact of the weaker Canadian dollar on US dollar-denominated interest expense.

Other income

In the second quarter and first half of 2015, the Company recorded other income of $16 million and $20 million, respectively, compared to $2 million and $96 million, respectively, in the same periods in 2014. Included in Other income for 2014 was a gain on disposal of the Deux-Montagnes of $80 million in the first quarter.

Income tax expense

The Company recorded income tax expense of $387 million and $646 million for the three and six months ended June 30, 2015, respectively, compared to $322 million and $521 million, respectively, for the same periods in 2014.

Included in the 2015 figures was a deferred income tax expense of $42 million resulting from the enactment of a higher provincial corporate income tax rate, which was recorded in the second quarter.

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, which was recorded in the first quarter.

The effective tax rate for the three and six months ended June 30, 2015 was 30.4% and 28.9%, respectively, and 27.5% and 26.2%, respectively, for the same periods in 2014. Excluding the net deferred income tax expense of $42 million in 2015 and the net income tax recovery of $18 million in 2014, the effective tax rates for the second quarter and first half of 2015 were 27.1% and 27.0%, respectively, and 27.5% and 27.1%, respectively, for the same periods in 2014.

Summary of quarterly financial data

	2015 Quarters		2014 Quarters				2013 Quarters	
In millions, except per share data	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	$ 3,125	$ 3,098	$ 3,207	$ 3,118	$ 3,116	$ 2,693	$ 2,745	$ 2,698
Operating income	$ 1,362	$ 1,063	$ 1,260	$ 1,286	$ 1,258	$ 820	$ 967	$ 1,084
Net income	$ 886	$ 704	$ 844	$ 853	$ 847	$ 623	$ 635	$ 705
Basic earnings per share	$ 1.10	$ 0.87	$ 1.04	$ 1.04	$ 1.03	$ 0.75	$ 0.76	$ 0.84
Diluted earnings per share	$ 1.10	$ 0.86	$ 1.03	$ 1.04	$ 1.03	$ 0.75	$ 0.76	$ 0.84
Dividends declared per share	$ 0.3125	$ 0.3125	$ 0.2500	$ 0.2500	$ 0.2500	$ 0.2500	$ 0.2150	$ 0.2150

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace (see the section entitled Business risks of the Company's 2014 Annual MD&A). Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. Fluctuations in the Canadian dollar relative to the US dollar have also affected the conversion of the Company's US dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

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

	2015 Quarters		2014 Quarters				2013 Quarters	
In millions, except per share data	Second	First	Fourth	Third	Second	First	Fourth	Third
Income tax expense (1)	$ (42)	$ -	$ -	$ -	$ -	$ -	$ -	$ (19)
After-tax gain on disposal of property (2)	-	-	-	-	-	72	-	-
Impact on net income	$ (42)	$ -	$ -	$ -	$ -	$ 72	$ -	$ (19)
Impact on basic earnings per share	$ (0.05)	$ -	$ -	$ -	$ -	$ 0.09	$ -	$ (0.02)
Impact on diluted earnings per share	$ (0.05)	$ -	$ -	$ -	$ -	$ 0.09	$ -	$ (0.02)

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

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

Liquidity and capital resources

An analysis of the Company's liquidity and capital resources is provided in the section entitled Liquidity and capital resources of the Company's 2014 Annual MD&A. There were no significant changes during the first half of 2015, except as noted below.

As at June 30, 2015 and December 31, 2014, the Company had Cash and cash equivalents of $86 million and $52 million, respectively; Restricted cash and cash equivalents of $462 million and $463 million, respectively; and a working capital deficit of $939 million and $135 million, respectively. The working capital deficit increased by $410 million in the second quarter and $804 million in the first half of 2015, mainly as a result of an increase in Current portion of long-term debt. 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 is not aware of any trends or expected fluctuations in its liquidity that would impact its ongoing operations or financial condition as at June 30, 2015.

Available financing sources

Revolving credit facility

On March 12, 2015, the Company extended the term of its agreement by one year to May 5, 2020. As at June 30, 2015 and December 31, 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the six months ended June 30, 2015.

Commercial paper

The Company has a commercial paper program in Canada and a new commercial paper program was established in the U.S. during the second quarter of 2015. Both programs are back-stopped by the Company's revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent on a combined basis. As at June 30, 2015, the Company had total commercial paper borrowings of $380 million (nil as at December 31, 2014) presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Accounts receivable securitization program

On June 18, 2015, the Company extended the term of its agreement by one year to February 1, 2018. As at June 30, 2015, the Company had proceeds of $50 million ($50 million as at December 31, 2014) received under the accounts receivable securitization program presented in Current portion of long-term debt on the Consolidated Balance Sheet, which is secured by and limited to $56 million ($56 million as at December 31, 2014) of accounts receivable.

Bilateral letter of credit facilities

On March 12, 2015, the Company extended the expiry date of its agreements by one year to April 28, 2018. As at June 30, 2015, the Company had letters of credit drawn of $485 million ($487 million as at December 31, 2014) from a total committed amount of $517 million ($511 million as at December 31, 2014) by the various banks. As at June 30, 2015, cash and cash equivalents of $462 million ($463 million as at December 31, 2014) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Additional information relating to these financing sources is provided in the section entitled Liquidity and capital resources – Available financing sources of the Company's 2014 Annual MD&A as well as Note 6 – Financing activities to the Company's unaudited Interim Consolidated Financial Statements.

Cash flows

	Three months ended June 30			Six months ended June 30		
In millions	**2015**	2014	Variance	**2015**	2014	Variance
Net cash provided by operating activities	**$ 1,203**	$ 1,273	$ (70)	**$ 2,195**	$ 1,918	$ 277
Net cash used in investing activities	**(662)**	(494)	(168)	**(1,143)**	(668)	(475)
Net cash used in financing activities	**(633)**	(844)	211	**(1,022)**	(1,328)	306
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	**-**	(6)	6	**4**	(9)	13
Net increase (decrease) in cash and cash equivalents	**(92)**	(71)	(21)	**34**	(87)	121
Cash and cash equivalents, beginning of period	**178**	198	(20)	**52**	214	(162)
Cash and cash equivalents, end of period	**$ 86**	$ 127	$ (41)	**$ 86**	$ 127	$ (41)

Operating activities

Net cash provided by operating activities decreased by $70 million in the second quarter of 2015 when compared to the same period in 2014, mainly due to higher cash payments for employee services and suppliers, as well as income taxes, partly offset by higher operating income. Net cash provided by operating activities increased by $277 million in the first half of 2015 when compared to the same period in 2014, mainly due to higher operating income, partly offset by higher cash payments for employee services and suppliers, as well as income taxes.

(a) Pension contributions

The Company's contributions to its various defined benefit pension plans are made in accordance with the applicable legislation in Canada and the U.S. and such contributions follow minimum and maximum thresholds as determined by actuarial valuations.

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. Actuarial valuations are also required annually for the Company's U.S. pension plans. For funding purposes, the funded status is calculated under going-concern and solvency scenarios as prescribed under pension legislation and subject to guidance issued by the Canadian Institute of Actuaries for all of the Company's registered Canadian defined benefit pension plans.

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

Voluntary contributions can be treated as a prepayment against the Company's future required special solvency deficit payments. As at December 31, 2014, the Company had $143 million of accumulated prepayments under the CN Pension Plan which the Company expects to use to satisfy its 2015 required solvency deficit payment, of which approximately $71 million was applied in the six months ended June 30, 2015.

Pension contributions for the six months ended June 30, 2015 and 2014 of $92 million and $100 million, respectively, primarily 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. In 2015, the Company expects to make total cash contributions of approximately $115 million for all of the Company's pension plans.

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.

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

Net income tax payments increased by $130 million, mainly due to a higher final payment for the 2014 fiscal year, made in February 2015. For the 2015 fiscal year, the Company's net income tax payments are expected to be approximately $975 million.

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 $168 million in the second quarter and $475 million in the first of half of 2015 when compared to the same periods in 2014, as a result of higher property additions.

(a) Property additions

	Three months ended June 30		**Six months ended June 30**	
In millions	**2015**	2014	**2015**	2014
Track and roadway	**$ 533**	$ 379	**$ 770**	$ 551
Rolling stock	**60**	32	**234**	50
Buildings	**12**	24	**19**	40
Information technology	**38**	30	**65**	54
Other	**16**	17	**39**	35
Property additions	**$ 659**	$ 482	**$ 1,127**	$ 730

(b) Capital expenditure program

The Company increased its budget for capital spending by $100 million in the first quarter of 2015, to sustain additional rail infrastructure safety investments, and expects to invest approximately $2.7 billion in its 2015 capital program. On April 16, 2015, the Company announced a new multi-year $500 million capital program to upgrade its Western Canada feeder rail lines in Alberta, Manitoba, and Saskatchewan that are handling rising freight volumes of industrial products, natural resources, and energy-related commodities. The Company will allocate $100 million of its 2015 capital budget to this program, for work on northern Alberta branch lines for infrastructure upgrades and safety improvements. The details of the Company's 2015 capital program are provided in the section entitled Liquidity and capital resources – Cash flows of the Company's 2014 Annual MD&A.

(c) Disposal of property

There were no significant disposals of property in the first half of 2015. In the first half of 2014, cash inflows included proceeds of $97 million from the disposal of the Deux-Montagnes that occurred in the first quarter.

Financing activities

Net cash used in financing activities decreased by $211 million in the second quarter and $306 million in the first half of 2015 when compared to the same periods in 2014, mainly as a result of higher proceeds from the issuance of commercial paper and less debt repayments. These factors were partly offset by higher share repurchases, purchases by Share Trusts in the second quarter, and payments for dividends.

(a) Debt financing activities

Debt financing activities in the first half of 2015 included a net issuance of commercial paper of $69 million in the second quarter and $379 million in the first half, and repayments related to capital leases of $56 million in the first half.

Debt financing activities in the first half of 2014 included the following:

- On January 15, 2014, repaid US$325 million (C$356 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;
- Proceeds from the accounts receivable securitization program of $100 million;
- Repayments of debt related to capital leases and the accounts receivable securitization program, totaling $217 million; and
- Net repayment of commercial paper of $180 million in the second quarter and net issuance of commercial paper of $9 million in the first half.

Additional information relating to the Company's outstanding debt securities is provided in Note 10 – Long-term debt in 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. As at June 30, 2015, the Company had repurchased 16.3 million common shares for $1,243 million under its current program.

The following table provides the information related to the share repurchase programs for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	**2015**	2014	**2015**	2014
Number of common shares repurchased (1)	**5.3**	5.6	**10.7**	11.9
Weighted-average price per share (2)	**$ 77.14**	$ 64.70	**$ 78.17**	$ 61.29
Amount of repurchase (3)	**$ 404**	$ 365	**$ 833**	$ 730

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

(2) Includes brokerage fees.

(3) Includes settlements in subsequent periods.

(c) Share purchases by Share Trusts

In 2014, the Company established Employee Benefit Plan Trusts (the "Share Trusts") to purchase common shares on the open market, which will be used to deliver common shares under the Share Units Plan. See Note 8 - Stock-based compensation to the Company's unaudited Interim Consolidated Financial Statements for additional information on the Share Units Plan. For the three and six months ended June 30, 2015, the Share Trusts purchased 0.6 million common shares for $44 million at a weighted-average price per share of $74.39, including brokerage fees. Additional information relating to the share purchases by Share Trusts is provided in Note 13 – Share capital to the Company's 2014 Annual Consolidated Financial Statements.

(d) Dividends paid

The Company paid quarterly dividends of $0.3125 per share amounting to $250 million and $502 million, in the second quarter and first half of 2015, respectively, compared to $206 million and $412 million, at the rate of $0.2500 per share, for the same periods in 2014.

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 June 30, 2015:

In millions	**Total**	2015	2016	2017	2018	2019	2020 & thereafter
Debt obligations (1)	**$ 8,690**	$ 867	$ 683	$ 621	$ 652	$ 685	$ 5,182
Interest on debt obligations (2)	**5,798**	197	382	368	337	289	4,225
Capital lease obligations (3)	**792**	47	367	173	16	16	173
Operating lease obligations (4)	**751**	89	145	120	98	72	227
Purchase obligations (5)	**1,525**	681	565	214	26	20	19
Pension contributions (6)	**587**	5	144	146	146	146	-
Other long-term liabilities reflected on the balance sheet (7)	**750**	57	40	55	40	37	521
Total contractual obligations	**$ 18,893**	**$ 1,943**	**$ 2,326**	**$ 1,697**	**$ 1,315**	**$ 1,265**	**$ 10,347**

(1) Presented net of unamortized discounts, of which $832 million relates to non-interest bearing Notes due in 2094, and excludes capital lease obligations of $654 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 June 30, 2015.

(3) Includes $654 million of minimum lease payments and $138 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 $20 million and generally extend over five years.

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

(6) The Company's pension contributions are based on actuarial funding valuations. The minimum required payments for pension contributions, excluding current service cost, are based on the Company's most recent estimates and reflect the expected result of actuarial funding valuations as at December 31, 2014. 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 section of this MD&A entitled Liquidity and capital resources – Pension contributions for more information. A description of the Company's pension plans is provided in Note 12 – Pensions and other postretirement benefits to the Company's 2014 Annual Consolidated Financial Statements.

(7) Includes expected payments for workers' compensation, 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.

	Three months ended June 30		Six months ended June 30	
In millions	**2015**	2014	**2015**	2014
Net cash provided by operating activities	**$ 1,203**	$ 1,273	**$ 2,195**	$ 1,918
Net cash used in investing activities	**(662)**	(494)	**(1,143)**	(668)
Net cash provided before financing activities	**541**	779	**1,052**	1,250
Adjustment: Change in restricted cash and cash equivalents	**(11)**	(3)	**(1)**	20
Free cash flow	**$ 530**	$ 776	**$ 1,051**	$ 1,270

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

June 30,	**2015**	2014
Debt-to-total capitalization ratio (1)	**40.1%**	36.5%
Add: Impact of present value of operating lease commitments (2)	**1.6%**	1.6%
Adjusted debt-to-total capitalization ratio	**41.7%**	38.1%

Adjusted debt-to-adjusted EBITDA multiple

In millions, unless otherwise indicated — *Twelve months ended June 30,*	**2015**	2014
Debt	**$ 9,344**	$ 7,661
Add: Present value of operating lease commitments (2)	**647**	563
Adjusted debt	**9,991**	8,224
Operating income	**4,971**	4,129
Add: Depreciation and amortization	**1,118**	1,008
EBITDA (excluding Other income)	**6,089**	5,137
Add: Deemed interest on operating leases	**30**	28
Adjusted EBITDA	**$ 6,119**	$ 5,165
Adjusted debt-to-adjusted EBITDA multiple	**1.63 times**	1.59 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 June 30, 2015, as compared to the same period in 2014, was mainly due to an increased debt level, primarily caused by a weaker Canadian-to-US dollar foreign exchange rate in effect at the balance sheet date. The Company's adjusted debt-to-adjusted EBITDA multiple also increased, driven by a higher debt level as at June 30, 2015, which was partly offset by a higher operating income earned for the twelve months ended June 30, 2015, as compared to the twelve months ended June 30, 2014.

All forward-looking information provided in this section is subject to risks and uncertainties and is based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments. See the section of this MD&A entitled Forward-looking statements for a discussion of assumptions and risk factors affecting such forward-looking statements.

Off balance sheet arrangements

Guarantees and indemnifications

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, residual value guarantees on operating leases, standby letters of credit, surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business. As at June 30, 2015, 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

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. A description of these risks and how the Company manages them, is provided in the section entitled Financial instruments of the Company's 2014 Annual MD&A. Additional information relating to financial instruments is provided in Note 11 – Financial instruments to the Company's unaudited Interim Consolidated Financial Statements.

Foreign currency risk

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

Derivative financial instruments

For the three and six months ended June 30, 2015, the Company recorded a pre-tax loss of $7 million and a pre-tax gain of $29 million, respectively, related to foreign exchange forward contracts, compared to nil and a pre-tax gain of $10 million, respectively, for the same periods in 2014. As at June 30, 2015, the Company recorded an unrealized gain of $38 million ($9 million as at December 31, 2014) related to foreign exchange forward contracts in Other current assets in the Consolidated Balance Sheet.

Fair value of financial instruments

As at June 30, 2015, the Company's investments had a carrying amount of $63 million ($58 million as at December 31, 2014) and a fair value of $196 million ($183 million as at December 31, 2014).

As at June 30, 2015, the Company's debt had a carrying amount of $9,344 million ($8,409 million as at December 31, 2014) and a fair value of $10,488 million ($9,767 million as at December 31, 2014).

Outstanding share data

As at July 20, 2015, the Company had 797.3 million common shares outstanding, and 7.9 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 discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Company's results of operations and financial position for the past three years ended December 31, 2014, as well as the effect of changes to these estimates, are described in the section entitled Critical accounting estimates of the Company's 2014 Annual MD&A.

As at June 30, 2015 and December 31, 2014, the Company had the following amounts outstanding relating to its critical accounting estimates:

In millions	**June 30 2015**	December 31 2014
Net deferred income tax liability	**$ 7,313**	$ 6,834
Properties	**30,053**	28,514
Pension asset	**1,070**	882
Pension liability	**413**	400
Other postretirement benefits liability	**270**	267
Provision for personal injury and other claims	**305**	298
Provision for environmental costs	**133**	114

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.

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.

Reference is made to the section entitled Business risks of the Company's 2014 Annual MD&A, for a detailed description of such key areas of business risks and uncertainties with respect to: Competition, Environmental matters, Personal injury and other claims, Labor negotiations, Regulation, Security, Transportation of hazardous materials, Economic conditions, Pension funding volatility, Trade restrictions, Terrorism and international conflicts, Customer credit risk, Liquidity, Supplier concentration, Availability of qualified personnel, Fuel costs, Foreign exchange, Interest rate, Reliance on technology, Transportation network disruptions, and Weather and climate change, which is incorporated herein by reference. Additional risks and uncertainties not currently known to management or that may currently be considered immaterial by management, could also have an adverse effect on the Company's business.

There have been no material changes to the risks described in the Company's 2014 Annual MD&A. The following is an update on labor negotiations and regulatory matters.

Labor negotiations

Canadian workforce

On February 25, 2015, the tentative agreement reached between CN and the Teamsters Canada Rail Conference (TCRC) governing rail traffic controllers was ratified. The new collective agreement expires on December 31, 2018.

On March 13, 2015, the tentative agreements reached between CN and Unifor, governing clerical, intermodal employees and owner-operator truck drivers were ratified. The new collective agreements expire on March 31, 2019.

On March 17, 2015, the tentative agreement reached between CN and Unifor governing shopcraft employees was ratified. The new collective agreement expires on December 31, 2018.

On April 16, 2015, the tentative agreements reached between CN and the TCRC governing locomotive engineers were ratified. The new collective agreements expire on December 31, 2017.

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

U.S. workforce

On March 19, 2015 the tentative agreement reached with the United Transportation Union (a division of the International Association of Sheet Metal, Air, Rail, and Transportation Workers -SMART) governing conductors on the Grand Trunk Western was ratified. The moratorium period for the revised agreement ends on July 31, 2016.

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.

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.

Regulation

Economic regulation – Canada

On March 28, 2015, Transport Canada announced that the Government of Canada would not renew the requirement for CN and Canadian Pacific Railway Company to transport minimum volumes of grain by rail after the Order in Council expired on March 28, 2015.

On June 18, 2015, Bill C-52, which was introduced by the Government of Canada on February 20, 2015, received Royal Assent and came into force. The bill requires railway companies to maintain minimum liability insurance coverage; and establishes a strict liability regime on railway companies up to their minimum insurance levels in respect of losses incurred as a result of a railway accident involving crude oil. Bill C-52 creates a fund capitalized through levies payable by the crude oil shipper to compensate for losses exceeding the railway company's minimum insurance level. Currently, the Company's liability insurance coverage exceeds the minimum required. The provisions relating to insurance requirements and the fund are expected to come into force in one year.

Economic regulation – U.S.

On July 2, 2013, in a case brought by the freight railroad industry, the U.S. Court of Appeals for the D.C. Circuit determined that Congress' delegation to Amtrak in the Passenger Rail Investment and Improvement Act of 2008 of joint legislative authority with the FRA to promulgate certain performance standards for Amtrak passenger trains to be unconstitutional. On March 9, 2015, the Supreme Court vacated that decision and returned the case to the D.C. Circuit for review of constitutional claims not previously ruled upon. As a result, the joint FRA/Amtrak performance standards became applicable again on April 10, 2015, pending the D.C. Circuit's review.

On March 18, 2015, in the current session of the U.S. Congress, STB re-authorization legislation was introduced in the Senate (S. 808). In addition to addressing arbitration and the Board's investigatory authority, the current bill would, among other things, further streamline the STB's rate-case review process, and extend current STB membership from three Commissioners to five. Numerous shipper organizations have registered their support for Bill (S. 808), while the freight railroads have decided to not oppose the bill in its current form. On March 25, 2015, Bill (S. 808) was approved by the Senate Commerce Committee and awaits further action by the full Senate.

On March 24, 2015, legislation was introduced in the Senate (S. 853) which would (among a number of other provisions) allow for reciprocal switching for junctions within 100 miles.

No assurance can be given that these or any other current or 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.

Safety regulation – Canada

On January 1, 2015, Transport Canada's new regulations governing railway operating certificates specifying the safety and operating requirements that must be met by railway companies in order to obtain an operating certificate came into effect. Railway companies have until September 1, 2016 to apply for a certificate.

On March 11, 2015 the Federal Minister of Transport announced that Transport Canada would be issuing new requirements for tank cars. The new standard, called TC-117, will include a large number of upgraded requirements. The Minister also announced a phase out schedule for the DOT-111 and CPC-1232 tank cars.

On April 1, 2015, the following Transport Canada regulations came into effect: (1) regulations setting out the administrative monetary penalties that could be issued for violation of the *Railway Safety Act* and its associated regulations; (2) regulations for highway-railway crossings which establish specific standards for new crossings and require that existing crossings be upgraded to basic safety standards within seven years, and specify safety related data that must be provided by railway companies on an annual basis; and (3) regulations modifying the requirements for safety management systems for both federally-regulated railway companies as well as local carriers operating on railway lines of federally-regulated carriers.

On June 18, 2015, Bill C-52 came into force, amending certain provisions in the *Railway Safety Act*, giving the Canadian Transportation Agency jurisdiction to order railway companies to compensate municipalities for the costs incurred in responding to fires caused by railway operations. Additional amendments increase the power of the Minister or its inspectors respecting threats to safe railway operations and the associated corrective measures.

Safety regulation – U.S.

On March 25, 2015, the U.S. Senate Committee on Commerce, Science and Transportation (Senate Commerce Committee) approved a bill (S. 650) that would extend the deadline for railroads to comply with Positive Train Control (PTC) implementation by five years, to the end of 2020. This legislation, if approved by Congress and passed, would also provide the U.S. Secretary of Transportation with limited authority to grant extensions on a case by case basis, based on safety and operational risk, for up to two additional years. The bill included an amendment requiring railroads to report periodically on their progress with implementation of PTC.

On April 16, 2015, a conflicting bill (S. 1006) was introduced to the Senate Commerce Committee which would delay PTC implementation by only six months with possible one-year extensions on a case-by-case basis, for a maximum of three years.

On July 15, 2015, the Senate Commerce Committee approved a bill (S. 1732), containing the requirements of a previous bill (S. 1626) that was introduced to the Senate Commerce Committee on June 18, 2015, which would require railroads to submit updated PTC plans with milestones or metrics and implementation schedules, committing the carriers to sustained progress, including equipment component installation and spectrum acquisition by December 31, 2018. Under this legislation, if approved by Congress and passed, railroads, on a case-by-case basis, would be able to submit their respective updated plans, including a new implementation deadline, within 90 days after enactment. The updated plans would be subject to approval and potential enforcement of the U.S. Secretary of Transportation, should a carrier fail to meet its committed milestones and implementation schedule. The current PTC implementation deadline is December 31, 2015.

On March 25, 2015, new legislation was introduced in the U.S. Senate (S. 859) which would, if approved by Congress and passed, among a number of other provisions, immediately ban the transport of crude in DOT-111 and unjacketed CPC-1232 tank cars. The bill also proposes to establish measures on volatility of crude level and increase the number of track inspections.

On May 8, 2015, the Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a final rule containing new requirements for tank cars moving in high-hazard flammable trains (HHFTs) and related speed restrictions, as well as other requirements, including the use of electronically controlled pneumatic (ECP) brakes. To be used in an HHFT, new tank cars constructed after October 1, 2015 will have to meet enhanced DOT Specification 117 design or performance criteria, while existing tank cars will have to be retrofitted based on a DOT-prescribed schedule. On June 12, 2015, the Association of American Railroads filed an administrative appeal with PHMSA challenging, among other matters, the agency's requirement for railroads to install ECP brakes on certain HHFTs.

No assurance can be given that these or any other current or 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.

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 June 30, 2015, have concluded that the Company's disclosure controls and procedures were effective.

During the second quarter ended June 30, 2015, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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
July 20, 2015