CANADIAN NATIONAL RAILWAY CO
Form 6-K
February 02, 2015

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of February 2014

Commission File Number: 001-02413

Canadian National Railway Company
(Translation of registrant's name into English)

935 de la Gauchetiere Street West
Montreal, Quebec
Canada H3B 2M9
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ____ Form 40-F X

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

Yes ____ No X

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

Yes ____ No X

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ____ No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Canadian National Railway Company

Table of Contents

Item

Management’s Report on Internal Control over Financial Reporting
Item 1

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

Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this assessment, management has determined that the Company’s internal control over financial reporting was effective as of December 31, 2014.

KPMG LLP, an independent registered public accounting firm, has issued an unqualified audit report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 and has also expressed an unqualified audit opinion on the Company’s 2014 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 2, 2015.

(s) Claude Mongeau
President and Chief Executive Officer

February 2, 2015

(s) Luc Jobin
Executive Vice-President and Chief Financial Officer

February 2, 2015

Canadian National Railway Company

1

Report of Independent Registered Public Accounting Firm

Item 2
To the Shareholders and Board of Directors of the Canadian National Railway Company

We have audited the accompanying consolidated balance sheets of the Canadian National Railway Company (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014 and 2013, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 2, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(s) KPMG LLP*

Montreal, Canada
February 2, 2015

* FCPA auditor, FCA, public accountancy permit No. A106087	KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Report of Independent Registered Public Accounting Firm

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

We have audited the Canadian National Railway Company's (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 2, 2015 expressed an unqualified opinion on those consolidated financial statements.

(s) KPMG LLP*

Montreal, Canada
February 2, 2015

*FCPA auditor, FCA, public accountancy permit No. A106087	KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated Statement of Income

Item 3

In millions, except per share data	Year ended December 31,	2014	2013	2012
Revenues		$ 12,134	$ 10,575	$ 9,920
Operating expenses				
Labor and fringe benefits		2,319	2,182	1,952
Purchased services and material		1,598	1,351	1,248
Fuel		1,846	1,619	1,524
Depreciation and amortization		1,050	980	924
Equipment rents		329	275	249
Casualty and other		368	295	338
Total operating expenses		7,510	6,702	6,235
Operating income		4,624	3,873	3,685
Interest expense		(371)	(357)	(342)
Other income (Note 3)		107	73	315
Income before income taxes		4,360	3,589	3,658
Income tax expense (Note 4)		(1,193)	(977)	(978)
Net income		$ 3,167	$ 2,612	$ 2,680
Earnings per share (Note 5)				
Basic		$ 3.86	$ 3.10	$ 3.08
Diluted		$ 3.85	$ 3.09	$ 3.06
Weighted-average number of shares (Note 5)				
Basic		819.9	843.1	871.1
Diluted		823.5	846.1	875.4

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions	Year ended December 31,	2014	2013	2012
Net income		$ 3,167	$ 2,612	$ 2,680
Other comprehensive income (loss) (Note 15)				
Net gain (loss) on foreign currency translation		75	46	(5)
Net change in pension and other postretirement benefit plans (Note 12)		(995)	1,775	(540)
Amortization of gain on treasury lock		(1)	-	-
Other comprehensive income (loss) before income taxes		(921)	1,821	(545)
Income tax recovery (expense)		344	(414)	127
Other comprehensive income (loss)		(577)	1,407	(418)
Comprehensive income		$ 2,590	$ 4,019	$ 2,262

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions	December 31,	2014	2013
Assets			
Current assets			
Cash and cash equivalents		$ 52	$ 214
Restricted cash and cash equivalents (Note 10)		463	448
Accounts receivable (Note 6)		928	815
Material and supplies		335	274
Deferred and receivable income taxes (Note 4)		163	137
Other		125	89
Total current assets		2,066	1,977
Properties (Note 7)		28,514	26,227
Pension asset (Note 12)		882	1,662
Intangible and other assets (Note 8)		330	297
Total assets		$ 31,792	$ 30,163
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other (Note 9)		$ 1,657	$ 1,477
Current portion of long-term debt (Note 10)		544	1,021
Total current liabilities		2,201	2,498
Deferred income taxes (Note 4)		6,902	6,537
Other liabilities and deferred credits (Note 11)		704	815
Pension and other postretirement benefits (Note 12)		650	541
Long-term debt (Note 10)		7,865	6,819
Shareholders' equity			
Common shares (Note 13)		3,718	3,795
Additional paid-in capital (Note 13)		439	220
Accumulated other comprehensive loss (Note 15)		(2,427)	(1,850)
Retained earnings		11,740	10,788
Total shareholders' equity		13,470	12,953
Total liabilities and shareholders' equity		$ 31,792	$ 30,163

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Robert Pace	Claude Mongeau

Director Director

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares (Note 13)	Common shares and additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	884.2	$ 4,141	$ (2,839)	$ 9,378	$ 10,680
Net income	-	-	-	2,680	2,680
Stock-based compensation and other (Notes 13, 14)	6.4	128	-	-	128
Share repurchase programs (Note 13)	(33.8)	(161)	-	(1,239)	(1,400)
Other comprehensive loss (Note 15)	-	-	(418)	-	(418)
Dividends ($0.75 per share)	-	-	-	(652)	(652)
Balance at December 31, 2012	856.8	4,108	(3,257)	10,167	11,018
Net income	-	-	-	2,612	2,612
Stock-based compensation and other (Notes 13, 14)	1.4	40	-	-	40
Share repurchase programs (Note 13)	(27.6)	(133)	-	(1,267)	(1,400)
Other comprehensive income (Note 15)	-	-	1,407	-	1,407
Dividends ($0.86 per share)	-	-	-	(724)	(724)
Balance at December 31, 2013	830.6	4,015	(1,850)	10,788	12,953
Net income	-	-	-	3,167	3,167
Stock-based compensation and other (Notes 13, 14)	1.2	250	-	-	250
Share repurchase programs (Note 13)	(22.4)	(108)	-	(1,397)	(1,505)
Other comprehensive loss (Note 15)	-	-	(577)	-	(577)
Dividends ($1.00 per share)	-	-	-	(818)	(818)
Balance at December 31, 2014	809.4	$ 4,157	$ (2,427)	$ 11,740	$ 13,470

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Year ended December 31,	2014	2013	2012
Operating activities			
Net income	$ 3,167	$ 2,612	$ 2,680
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,050	980	924
Deferred income taxes (Note 4)	416	331	451
Gain on disposal of property (Note 3)	(80)	(69)	(281)
Changes in operating assets and liabilities:			
Accounts receivable	(59)	32	(20)
Material and supplies	(51)	(38)	(30)
Accounts payable and other	-	(245)	129
Other current assets	5	13	(13)
Pensions and other, net	(67)	(68)	(780)
Net cash provided by operating activities	4,381	3,548	3,060
Investing activities			
Property additions	(2,297)	(1,973)	(1,731)
Disposal of property (Note 3)	173	52	311
Change in restricted cash and cash equivalents	(15)	73	(22)
Other, net	(37)	(4)	21
Net cash used in investing activities	(2,176)	(1,852)	(1,421)
Financing activities			
Issuance of debt (Note 10)	1,022	1,582	493
Repayment of debt (Note 10)	(822)	(1,413)	(58)
Net issuance (repayment) of commercial paper (Note 10)	(277)	268	(82)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized (Note 14)	30	31	117
Repurchase of common shares (Note 13)	(1,505)	(1,400)	(1,400)
Dividends paid	(818)	(724)	(652)
Net cash used in financing activities	(2,370)	(1,656)	(1,582)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	3	19	(3)
Net increase (decrease) in cash and cash equivalents	(162)	59	54
Cash and cash equivalents, beginning of year	214	155	101
Cash and cash equivalents, end of year	$ 52	$ 214	$ 155
Supplemental cash flow information			
Net cash receipts from customers and other	$ 12,029	$ 10,640	$ 9,877
Net cash payments for:			
Employee services, suppliers and other expenses	(6,333)	(5,558)	(5,241)
Interest	(409)	(344)	(364)
Personal injury and other claims (Note 16)	(57)	(61)	(79)
Pensions (Note 12)	(127)	(239)	(844)
Income taxes (Note 4)	(722)	(890)	(289)
Net cash provided by operating activities	$ 4,381	$ 3,548	$ 3,060

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Table of Contents

Notes to Consolidated Financial Statements

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

1 – Summary of significant accounting policies

Basis of presentation

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

Principles of consolidation

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

Use of estimates

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

Revenues

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

Income taxes

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

Earnings per share

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

Notes to Consolidated Financial Statements

Foreign currency

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

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

Cash and cash equivalents

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

Restricted cash and cash equivalents

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

Accounts receivable

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

Material and supplies

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

Properties

Accounting policy for capitalization of costs

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

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

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

Accounting policy for depreciation

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

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

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

Intangible assets

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

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

Accounts receivable securitization
The Company accounts for its accounts receivable securitization program under FASB ASC 860, Transfers and Servicing. Based on the structure of the program, the Company accounts for the proceeds as a secured borrowing.

Notes to Consolidated Financial Statements

Pensions

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

(a) the cost of pension benefits provided in exchange for employees' services rendered during the year;

(b) the interest cost of pension obligations;

(c) the expected long-term return on pension fund assets;

(d) the amortization of prior service costs and amendments over the expected average remaining service life of the employee group covered by the plans; and

(e) the amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the beginning of year balances of the projected benefit obligation or market-related value of plan assets, over the expected average remaining service life of the employee group covered by the plans.

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

Postretirement benefits other than pensions

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

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

Stock-based compensation

Stock-based compensation costs are determined using a fair value based approach and are charged to income over the period during which an employee is required to provide service in exchange for an award (requisite service period). For cash settled awards, stock-based compensation costs are accrued over the requisite service period based on the fair value of the awards at period-end. For equity settled awards, stock-based compensation costs are accrued over the requisite service period based on the fair value of the awards at grant date. The fair value of stock option awards is determined using the Black-Scholes option-pricing model. The fair value of performance share unit (PSU) awards is determined using a lattice-based model. The fair value of deferred share unit (DSU) awards is determined using an intrinsic value model.

Personal injury and other claims

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

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

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

Environmental expenditures

Environmental expenditures that relate to current operations, or to an existing condition caused by past operations, are expensed unless they can contribute to current or future operations. Environmental liabilities are recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The

Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective shares of the liability. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable and collectability is reasonably assured.

Derivative financial instruments

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

Notes to Consolidated Financial Statements

2 – Recent accounting pronouncement

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual and interim reporting periods beginning after December 15, 2016 and will replace most existing revenue recognition guidance within U.S. GAAP. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its Consolidated Financial Statements, related disclosures, as well as which transition method to apply. The Company does not expect a significant impact from the adoption of this standard.

3 – Other income

In millions	Year ended December 31,	2014	2013	2012
Gain on disposal of property (1)		$ 99	$ 64	$ 295
Gain on disposal of land		21	19	20
Other (2)		(13)	(10)	-
Total other income		$ 107	$ 73	$ 315

(1) In addition to the disposals of property described herein, 2014 includes other gains of $19 million; 2013 includes other losses of $5 million; and 2012 includes other gains of $14 million.

(2) Includes foreign exchange gains and losses.

Disposal of property

2014

Guelph

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

Deux-Montagnes

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

2013

Exchange of easements

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

Notes to Consolidated Financial Statements

Lakeshore West

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

2012

Bala-Oakville

On March 23, 2012, the Company entered into an agreement with Metrolinx to sell a segment of the Bala and a segment of the Oakville subdivisions in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Bala-Oakville"), for cash proceeds of $311 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Bala-Oakville 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 $281 million ($252 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

4 – Income taxes

As at December 31, 2014, Deferred and receivable income taxes include a net deferred income tax asset of $68 million ($74 million as at December 31, 2013) and an income tax receivable of $95 million ($63 million as at December 31, 2013).

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

The following table provides a reconciliation of income tax expense:

In millions	Year ended December 31,	2014	2013	2012
Canadian statutory federal tax rate		15.0%	15.0%	15.0%
Income tax expense at the Canadian statutory federal tax rate		$ 654	$ 538	$ 549
Income tax expense (recovery) resulting from:				
Provincial and foreign taxes (1)		531	423	425
Deferred income tax adjustments due to rate enactments (2)		-	24	35
Gain on disposals (3)		(19)	(9)	(44)
Other (4)		27	1	13
Income tax expense		$ 1,193	$ 977	$ 978
Cash payments for income taxes		$ 722	$ 890	$ 289

(1) Includes mainly Canadian provincial taxes and U.S. federal and state taxes.
(2) Includes the net income tax expense resulting from the enactment of provincial and state corporate tax rates.
(3) Relates to the permanent differences arising from lower capital gain tax rates on the gain on disposal of the Company’s properties in Canada.
(4) Includes adjustments relating to the resolution of matters pertaining to prior years' income taxes, including net recognized tax benefits, and other items.

Notes to Consolidated Financial Statements

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

In millions	Year ended December 31,	2014	2013	2012
Income before income taxes				
Domestic		$ 3,042	$ 2,445	$ 2,656
Foreign		1,318	1,144	1,002
Total income before income taxes		$ 4,360	$ 3,589	$ 3,658
Current income tax expense				
Domestic		$ 522	$ 404	$ 314
Foreign		255	242	213
Total current income tax expense		$ 777	$ 646	$ 527
Deferred income tax expense				
Domestic		$ 271	$ 279	$ 370
Foreign		145	52	81
Total deferred income tax expense		$ 416	$ 331	$ 451

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

In millions	December 31,	2014	2013
Deferred income tax assets			
Pension liability		$ 120	$ 89
Personal injury and legal claims		60	64
Environmental and other reserves		173	171
Other postretirement benefits liability		80	77
Net operating losses and tax credit carryforwards (1)		20	19
Total deferred income tax assets		453	420
Deferred income tax liabilities			
Properties		6,946	6,232
Pension asset		232	438
Other		109	213
Total deferred income tax liabilities		7,287	6,883
Total net deferred income tax liability		$ 6,834	$ 6,463
Total net deferred income tax liability			
Domestic		$ 2,841	$ 2,920
Foreign		3,993	3,543
Total net deferred income tax liability		$ 6,834	$ 6,463
Total net deferred income tax liability		$ 6,834	$ 6,463
Net current deferred income tax asset		68	74
Net noncurrent deferred income tax liability		$ 6,902	$ 6,537

(1) Net operating losses and tax credit carryforwards will expire between the years 2017 and 2034.

Notes to Consolidated Financial Statements

On an annual basis, the Company assesses the need to establish a valuation allowance for its deferred income tax assets, and if it is deemed more likely than not that its deferred income tax assets will not be realized, a valuation allowance is recorded. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred income tax liabilities, the available carryback and carryforward periods, and projected future taxable income in making this assessment. As at December 31, 2014, in order to fully realize all of the deferred income tax assets, the Company will need to generate future taxable income of approximately $1.7 billion and, based upon the level of historical taxable income and projections of future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. Management has assessed the impacts of the current economic environment and concluded there are no significant impacts to its assertions for the realization of deferred income tax assets. The Company has not recognized a deferred income tax asset of $158 million as at December 31, 2014 ($243 million as at December 31, 2013) on the unrealized foreign exchange loss recorded in Accumulated other comprehensive loss relating to its net investment in foreign subsidiaries, as the Company does not expect this temporary difference to reverse in the foreseeable future.

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

In millions	Year ended December 31,	2014	2013	2012
Gross unrecognized tax benefits at beginning of year		$ 30	$ 36	$ 46
Increases for:				
Tax positions related to the current year		3	2	1
Tax positions related to prior years		3	4	3
Decreases for:				
Tax positions related to prior years		-	(4)	-
Settlements		-	(8)	(13)
Lapse of the applicable statute of limitations		(1)	-	(1)
Gross unrecognized tax benefits at end of year		$ 35	$ 30	$ 36
Adjustments to reflect tax treaties and other arrangements		(6)	(5)	(6)
Net unrecognized tax benefits at end of year		$ 29	$ 25	$ 30

As at December 31, 2014, the total amount of gross unrecognized tax benefits was $35 million, before considering tax treaties and other arrangements between taxation authorities. The amount of net unrecognized tax benefits as at December 31, 2014 was $29 million. If recognized, all of the net unrecognized tax benefits as at December 31, 2014 would affect the effective tax rate. The Company believes that it is reasonably possible that approximately $10 million of the net unrecognized tax benefits as at December 31, 2014 related to various federal, state, and provincial income tax matters, each of which are individually insignificant, may be recognized over the next twelve months as a result of settlements and a lapse of the applicable statute of limitations.

The Company recognizes accrued interest and penalties related to gross unrecognized tax benefits in Income tax expense in the Company’s Consolidated Statement of Income. The Company recognized approximately $1 million, $2 million and $3 million in accrued interest and penalties during the years ended December 31, 2014, 2013 and 2012, respectively. The Company had approximately $6 million and $5 million of accrued interest and penalties as at December 31, 2014 and 2013, respectively.

In Canada, the Company’s federal and provincial income tax returns filed for the years 2008 to 2013 remain subject to examination by the taxation authorities. An examination of the Company's federal income tax returns for the years

2010 and 2011 is currently in progress and is expected to be completed during 2015. In the U.S., the federal income tax returns filed for the years 2007 to 2013 remain subject to examination by the taxation authorities, and the state income tax returns filed for the years 2009 to 2013 remain subject to examination by the taxation authorities. An examination of the federal income tax returns for the years 2007 to 2011 is currently in progress. Examinations of certain state income tax returns by the state taxation authorities are currently in progress. The Company does not anticipate any significant impacts to its results of operations or financial position as a result of the final resolutions of such matters.

Notes to Consolidated Financial Statements

5 – Earnings per share

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

In millions, except per share data	Year ended December 31,	2014	2013	2012
Net income		$ 3,167	$ 2,612	$ 2,680
Weighted-average basic shares outstanding		819.9	843.1	871.1
Effect of stock-based compensation		3.6	3.0	4.3
Weighted-average diluted shares outstanding		823.5	846.1	875.4
Basic earnings per share		$ 3.86	$ 3.10	$ 3.08
Diluted earnings per share		$ 3.85	$ 3.09	$ 3.06

6 – Accounts receivable

In millions	December 31,	2014	2013
Freight		$ 777	$ 675
Non-freight		160	147
Gross accounts receivable		937	822
Allowance for doubtful accounts		(9)	(7)
Net accounts receivable		$ 928	$ 815

7 – Properties

In millions		December 31, 2014			December 31, 2013		
	Depreciation rate	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Properties including capital leases							
Track and roadway (1)	2%	$ 29,995	$ 7,332	$ 22,663	$ 27,833	$ 7,103	$ 20,730
Rolling stock	5%	5,552	2,107	3,445	5,193	1,894	3,299
Buildings	2%	1,545	560	985	1,392	521	871
Information technology (2)	11%	1,068	492	576	1,000	455	545
Other	5%	1,549	704	845	1,388	606	782
Total properties including capital leases		$ 39,709	$ 11,195	$ 28,514	$ 36,806	$ 10,579	$ 26,227
Capital leases included in properties							
Track and roadway (3)		$ 417	$ 63	$ 354	$ 417	$ 58	$ 359
Rolling stock		808	292	516	982	358	624
Buildings		109	23	86	109	21	88

Other	108	29	79	102	22	80
Total capital leases included in properties	$ 1,442	$ 407	$ 1,035	$ 1,610	$ 459	$ 1,151

(1) Includes $2,079 million and $1,911 million of land as at December 31, 2014 and December 31, 2013, respectively.

(2) The Company capitalized $102 million in 2014 and $85 million in 2013 of internally developed software costs pursuant to FASB ASC 350-40, "Intangibles – Goodwill and Other, Internal – Use Software."

(3) Includes $108 million of right-of-way access in both years.

Notes to Consolidated Financial Statements

8 – Intangible and other assets

In millions	December 31,	2014	2013
Deferred and long-term receivables		$ 141	$ 109
Intangible assets		62	59
Investments (1) (2)		58	57
Other		69	72
Total intangible and other assets		$ 330	$ 297

(1) As at December 31, 2014, the Company had $47 million ($46 million as at December 31, 2013) of investments accounted for under the equity method and $11 million ($11 million as at December 31, 2013) of investments accounted for under the cost method.

(2) See Note 17 - Financial instruments, for the fair value of Investments.

9 – Accounts payable and other

In millions	December 31,	2014	2013
Trade payables		$ 464	$ 408
Payroll-related accruals		317	351
Income and other taxes		208	96
Accrued charges		166	156
Stock-based compensation liability (Note 14)		106	80
Accrued interest		95	125
Personal injury and other claims provisions (Note 16)		48	45
Environmental provisions (Note 16)		45	41
Other postretirement benefits liability (Note 12)		17	18
Other		191	157
Total accounts payable and other		$ 1,657	$ 1,477

Notes to Consolidated Financial Statements

10 – Long-term debt

In millions		Maturity	Outstanding US dollar-denominated amount	December 31, 2014	2013
Notes and debentures (1)					
Canadian National series:					
4.95%	6-year notes (2)	Jan. 15, 2014	US$ -	$ -	$ 346
-	2-year floating rate notes (3)	Nov. 6, 2015	350	406	372
5.80%	10-year notes (2)	June 1, 2016	250	290	266
1.45%	5-year notes (2)	Dec. 15, 2016	300	348	319
-	3-year floating rate notes (3)	Nov. 14, 2017	250	290	-
5.85%	10-year notes (2)	Nov. 15, 2017	250	290	266
5.55%	10-year notes (2)	May 15, 2018	325	377	346
6.80%	20-year notes (2)	July 15, 2018	200	232	213
5.55%	10-year notes (2)	Mar. 1, 2019	550	638	585
2.75%	7-year notes (2)	Feb. 18, 2021		250	-
2.85%	10-year notes (2)	Dec. 15, 2021	400	464	425
2.25%	10-year notes (2)	Nov. 15, 2022	250	290	266
7.63%	30-year debentures	May 15, 2023	150	174	159
2.95%	10-year notes (2)	Nov. 21, 2024	350	406	-
6.90%	30-year notes (2)	July 15, 2028	475	551	505
7.38%	30-year debentures (2)	Oct. 15, 2031	200	232	213
6.25%	30-year notes (2)	Aug. 1, 2034	500	581	532
6.20%	30-year notes (2)	June 1, 2036	450	522	479
6.71%	Puttable Reset Securities PURSSM (2)	July 15, 2036	250	290	266
6.38%	30-year debentures (2)	Nov. 15, 2037	300	348	319
3.50%	30-year notes (2)	Nov. 15, 2042	250	290	266
4.50%	30-year notes (2)	Nov. 7, 2043	250	290	266
Illinois Central series:					
5.00%	99-year income debentures	Dec. 1, 2056	-	-	7
7.70%	100-year debentures	Sep. 15, 2096	125	145	133
BC Rail series:					
	Non-interest bearing 90-year subordinated notes (4)	July 14, 2094		842	842
Total notes and debentures			US$ 6,425	$ 8,546	$ 7,391
Other					
Commercial paper				-	273
Accounts receivable securitization				50	250

Capital lease obligations		670	783
Total debt, gross		9,266	8,697
Less:	Net unamortized discount	857	857
Total debt (5)		8,409	7,840
Less:	Current portion of long-term debt	544	1,021
Total long-term debt		$ 7,865	$ 6,819

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

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

(3) These 2-year and 3-year floating rate notes bear interest at the three-month London Interbank Offered Rate (LIBOR) plus 0.20% and LIBOR plus 0.17%, respectively. The interest rate on the 2-year floating rate notes as at December 31, 2014 was 0.43% (0.44% as at December 31, 2013). The interest rate on the 3-year floating rate notes issued in 2014 was 0.40%.

(4) The Company records these notes as a discounted debt of $9 million, using an imputed interest rate of 5.75%. The discount of $833 million is included in the net unamortized discount.

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

Notes to Consolidated Financial Statements

Revolving credit facility

The Company has an $800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the facility amount, up to a maximum of $1.3 billion, as well as the option to extend the term by an additional year at each anniversary date, subject to the consent of individual lenders. The Company exercised such option and on March 14, 2014, the expiry date of the agreement was extended by one year to May 5, 2019. 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 December 31, 2014 and December 31, 2013, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the years ended December 31, 2014 and 2013.

Commercial paper

The Company has a commercial paper program, which is back-stopped by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent. As at December 31, 2014, the Company had no commercial paper borrowings ($273 million at a weighted-average interest rate of 1.14% as at December 31, 2013) presented in Current portion of long-term debt on the Consolidated Balance Sheet. The Company's commercial paper has a maturity less than 90 days.

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

In millions	Year ended December 31,	2014	2013	2012
Issuances of commercial paper		$ 2,443	$ 3,255	$ 1,861
Repayments of commercial paper		(2,720)	(2,987)	(1,943)
Net issuance (repayment) of commercial paper		$ (277)	$ 268	$ (82)

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 July 23, 2014, the expiry date of the agreement was extended by one year to February 1, 2017.

As at December 31, 2014, the Company recorded $50 million ($250 million as at December 31, 2013) of proceeds received under the accounts receivable securitization program in the Current portion of long-term debt on the Consolidated Balance Sheet at a weighted-average interest rate of 1.24% (1.18% as at December 31, 2013) which is secured by and limited to $56 million ($281 million as at December 31, 2013) of accounts receivable.

Bilateral letter of credit facilities

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 14, 2014, the expiry date of these agreements was extended by one year to April 28, 2017. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at December 31, 2014, the Company had letters of credit drawn of $487 million ($481 million as at December 31, 2013) from a total committed amount of $511 million ($503 million as at December 31, 2013) by the various banks. As at December 31, 2014, cash and cash equivalents of $463 million ($448 million as at December 31, 2013) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Capital lease obligations

During 2014, the Company had no acquisitions of assets through equipment leases ($44 million in 2013 for which an equivalent amount was recorded in debt).

Interest rates for capital lease obligations range from approximately 0.7% to 8.5% with maturity dates in the years 2015 through 2037. The imputed interest on these leases amounted to $145 million as at December 31, 2014 and $209 million as at December 31, 2013.

The capital lease obligations are secured by properties with a net carrying amount of $668 million as at December 31, 2014 and $779 million as at December 31, 2013.

Notes to Consolidated Financial Statements

Long-term debt maturities

The following table provides the long-term debt maturities, including capital lease repayments on debt outstanding as at December 31, 2014, for the next five years and thereafter:

In millions	Capital leases	Debt	Total
2015 (1)	$ 88	$ 456	$ 544
2016	311	634	945
2017	152	577	729
2018	8	606	614
2019	8	636	644
2020 and thereafter	103	4,830	4,933
Total	$ 670	$ 7,739	$ 8,409

(1) Current portion of long-term debt.

Amount of US dollar-denominated debt

In millions	December 31,	2014	2013
Notes and debentures		US $ 6,425	US $ 6,157
Capital lease obligations		448	573
Total amount of US dollar-denominated debt in US$		US $ 6,873	US $ 6,730
Total amount of US dollar-denominated debt in C$		$ 7,973	$ 7,158

Notes to Consolidated Financial Statements

11 – Other liabilities and deferred credits

In millions	December 31,	2014		2013
Personal injury and other claims provisions, net of current portion (Note 16)	$	250	$	271
Stock-based compensation liability, net of current portion (Note 14)		91		240
Environmental provisions, net of current portion (Note 16)		69		78
Deferred credits and other		294		226
Total other liabilities and deferred credits	$	704	$	815

12 – Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Senior and executive management employees ("executive employees") subject to certain minimum service and age requirements, are also eligible for an additional retirement benefit under their Special Retirement Stipend Agreements (SRS), the Supplemental Executive Retirement Plan (SERP) or the Defined Contribution Supplemental Executive Retirement Plan (DC SERP). Current or former executive employees who breach the non-compete, non-solicitation and non-disclosure of confidential information conditions of the SRS, SERP or DC SERP plans will forfeit the retirement benefit under these plans. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their SRS, SERP, or DC SERP plan, the Company may at its discretion withhold or suspend payout of the retirement benefit pending resolution of such matter.

On February 4, 2013, the Company's Chief Operating Officer (COO) resigned to join the Company's major competitor in Canada. As a result, compensation amounts accumulated under the non-registered pension plans subject to non-compete and non-solicitation agreements were forfeited. The Company has recorded an actuarial gain related to the amounts forfeited. In 2012, the Company cancelled the $1.5 million annual retirement benefit otherwise due to its former Chief Executive Officer (CEO) after determining that the former CEO was likely in breach of the non-compete, non-solicitation and non-disclosure of confidential information conditions contained in the former CEO's employment agreement. The Company recorded a settlement gain of $20 million from the termination of the former CEO's retirement benefit plan for the period beyond June 28, 2012, which was partially offset by the recognition of past accumulated actuarial losses of approximately $4 million. In February 2013, the Company entered into confidential agreements to settle these matters.

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

Description of the CN Pension Plan

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

Funding policy

Employee contributions to the CN Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, the Pension Benefits Standards Act, 1985, including amendments and regulations thereto, and such contributions follow minimum and maximum thresholds as determined by actuarial valuations. Actuarial valuations are generally required on an annual basis for all Canadian plans, or when deemed appropriate by the Office of the Superintendent of Financial Institutions (OSFI). These actuarial valuations are prepared in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. The Company's most recently filed actuarial valuations conducted as at December 31, 2013 indicated a funding excess on a going-concern basis of approximately \$1.6 billion and a funding deficit on a solvency basis of approximately \$1.7 billion calculated using the three-year average of the plans' hypothetical wind-up ratio in accordance with the Pension Benefit Standards Regulations, 1985. The Company's next actuarial valuations required as at December 31, 2014 will be performed in 2015. These actuarial valuations are expected to identify a going-concern surplus of approximately \$1.9 billion, while on a solvency basis a

Notes to Consolidated Financial Statements

funding deficit of approximately $1.1 billion is expected. The federal pension legislation requires funding deficits, as calculated under current pension regulations, to be paid over a number of years. Alternatively, a letter of credit can be subscribed to fulfill required solvency deficit payments. Actuarial valuations are also required annually for the Company's U.S. qualified pension plans.

In 2014, the Company made no voluntary contributions ($100 million in 2013) in excess of the required minimum contributions. Voluntary contributions can be treated as a prepayment against its future required special solvency deficit payments. As at December 31, 2014, the Company had $143 million of accumulated prepayments under the CN Pension Plan which remain available to offset future required solvency deficit payments. The Company expects to use these prepayments to satisfy a portion of its 2015 required solvency deficit payment. The Company established an irrevocable standby letter of credit in 2014 with a face amount of approximately $3 million in order to satisfy the solvency deficit payment for the BC Rail Pension Plan. The Company expects to further subscribe to letters of credit in 2015 to satisfy the solvency deficit payments for certain of its defined benefit pension plans including the CN Pension Plan. Under the CN Pension Plan, considering the prepayments available, it is expected that the letters of credit will only be required in the third quarter of 2015. The total face amount of the letters of credit is expected to be approximately $90 million at the end of 2015. As a result, the Company's cash contributions for 2015 are expected to be $125 million, for all the Company's pension plans. As at February 2, 2015, the Company contributed $80 million to its defined benefit pension plans for 2015.

Plan assets

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

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

Notes to Consolidated Financial Statements

The Company's 2014 target long-term asset mix and actual asset allocation for the Company's pension plans based on fair value, are as follows:

	Target long-term asset mix	Percentage of plan assets 2014	2013
Cash and short-term investments	3%	3%	5%
Bonds and mortgages	37%	29%	25%
Equities	45%	39%	41%
Real estate	4%	2%	2%
Oil and gas	7%	8%	8%
Infrastructure	4%	5%	5%
Absolute return	-	10%	10%
Risk-based allocation	-	4%	4%
Total	100%	100%	100%

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

(a) Cash and short-term investments consist primarily of highly liquid securities which ensure adequate cash flows are available to cover near-term benefit payments. Short-term investments are mainly obligations issued by Canadian chartered banks.

(b) Bonds include bond instruments, issued or guaranteed by governments and corporate entities, as well as corporate notes. As at December 31, 2014, 82% of bonds were issued or guaranteed by Canadian, U.S. or other governments. Mortgages consist of mortgage products which are primarily conventional or participating loans secured by commercial properties.

(c) Equity investments are primarily publicly traded securities, well diversified by country, issuer and industry sector. In 2014, the most significant allocation to an individual issuer was approximately 2% and the most significant allocation to an industry sector was approximately 23%.

(d) Real estate is a diversified portfolio of Canadian land and commercial properties held by the Trusts' wholly-owned subsidiaries.

(e) Oil and gas investments include petroleum and natural gas properties operated by the Trusts' wholly-owned subsidiaries and listed and non-listed Canadian securities of oil and gas companies.

(f) Infrastructure investments include participations in private infrastructure funds, public and private debt and publicly traded equity securities of infrastructure and utility companies. Some of these investments are held by the Trusts' wholly-owned subsidiaries.

(g) Absolute return investments are primarily a portfolio of units of externally managed hedge funds, which are invested in various long/short strategies within multi-strategy, fixed income, equities, global macro and commodity funds, as presented in the table of fair value measurement. Managers are monitored on a continuous basis through investment and operational due diligence.

(h) Risk-based allocation investments are a portfolio of units of externally managed funds where the overall risk of the asset class is managed in order to capture over time different asset classes risk premiums. Some of these investments are held by the Trusts' wholly-owned subsidiaries.

The plans' Investment Manager monitors market events and exposures to markets, currencies and interest rates daily. When investing in foreign securities, the plans are exposed to foreign currency risk that may be adjusted or hedged; the effect of which is included in the valuation of the foreign securities. Net of the effects mentioned above, the plans were 65% exposed to the Canadian dollar, 16% to the US dollar, 7% to European currencies, and 12% to various other currencies as at December 31, 2014. Interest rate risk represents the risk that the fair value of the investments will fluctuate due to changes in market interest rates. Sensitivity to interest rates is a function of the timing and amount of cash flows of the assets and liabilities of the plans. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans, particularly the Company’s main Canadian pension plan. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuations may have a material adverse effect on the funded status of the plans and on the Company’s results of operations. Derivatives are used from time to time to adjust asset mix or exposures to foreign currencies, interest rate or market risks of the portfolio or anticipated transactions. Derivatives are contractual agreements whose value is derived from interest rates, foreign exchange rates, and equity or commodity prices. They may include forwards, futures, options and swaps and are included in investment categories based on their underlying exposure. When derivatives are used for hedging purposes, the gains or losses on the derivatives are offset by a corresponding change in the value of the hedged assets. To manage credit risk, established policies require dealing with counterparties considered to be of high credit quality.

Notes to Consolidated Financial Statements

The following tables present the fair value of plan assets as at December 31, 2014 and 2013 by asset class, their level within the fair value hierarchy and the valuation techniques and inputs used to measure such fair value:

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

		Fair value measurements at December 31, 2013		
In millions	Total	Level 1	Level 2	Level 3
Cash and short-term investments (1)	$ 897	$ 16	$ 881	$ -
Bonds (2)				
Canada, U.S. and supranational	1,416	-	1,416	-
Provinces of Canada and municipalities	2,297	-	2,297	-
Corporate	111	-	111	-
Emerging market debt	261	-	261	-
Mortgages (3)	166	-	166	-
Equities (4)				
Canadian	2,160	2,138	-	22
U.S.	1,307	1,307	-	-
International	3,421	3,421	-	-
Real estate (5)	299	-	-	299

Oil and gas (6)	1,380	379	40	961
Infrastructure (7)	788	10	115	663
Absolute return funds (8)				
Multi-strategy	460	-	460	-
Fixed income	519	-	486	33
Equity	391	2	389	-
Global macro	328	-	328	-
Risk-based allocation (9)	607	-	607	-
Total	$ 16,808	$ 7,273	$ 7,557	$ 1,978
Other (10)	61			
Total plan assets	$ 16,869			

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

Footnotes to the table follow on the next page.

Notes to Consolidated Financial Statements

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

	Fair value measurements based on significant unobservable inputs (Level 3)					
In millions	Equities (4)	Real estate (5)	Oil and gas (6)	Infrastructure (7)	Absolute return (8)	Total
Balance at December 31, 2012	$ 22	$ 279	$ 940	$ 577	$ 10	$ 1,828
Actual return relating to assets still held at the reporting date	2	26	72	43	3	146
Purchases	2	-	-	120	20	142
Sales	(4)	(6)	(51)	(77)	-	(138)
Balance at December 31, 2013	$ 22	$ 299	$ 961	$ 663	$ 33	$ 1,978
Actual return relating to assets still held at the reporting date	1	21	-	2	1	25
Purchases	4	-	47	159	9	219
Sales	(3)	(3)	-	(60)	-	(66)
Balance at December 31, 2014	$ 24	$ 317	$ 1,008	$ 764	$ 43	$ 2,156

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

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

(3) Mortgages are secured by real estate. The fair value of $131 million ($166 million in 2013) of mortgages categorized as Level 2 is based on the present value of future cash flows using current market yields for comparable instruments.

(4) The fair value of equity investments categorized as Level 1 is based on quoted prices in active markets. The fair value of equity investments of $24 million ($22 million in 2013) categorized as Level 3 represent units in private equity funds which are valued by their independent administrators.

(5) The fair value of real estate investments of $317 million ($299 million in 2013) includes land and buildings net of related mortgage debt of $34 million ($41 million in 2013) and is categorized as Level 3. Land is valued based on the fair value of comparable assets, and buildings are valued based on the present value of estimated future net cash flows or the fair value of comparable assets. Independent valuations of land and buildings are performed triennially on a rotational basis. Mortgage debt is valued based on the present value of future cash flows using current market yields for comparable instruments.

(6) Oil and gas investments categorized as Level 1 are valued based on quoted prices in active markets. Investments in oil and gas equities traded on a secondary market are valued based on the most recent transaction price and are categorized as Level 2. Investments of $1,008 million ($961 million in 2013) categorized as Level 3 consist of operating oil and gas properties and the fair value is based on estimated future net cash flows that are discounted using prevailing market rates for transactions in similar assets. The future net cash flows are based on forecasted oil and gas prices and projected future annual production and

costs.

(7) Infrastructure investments consist of $14 million ($10 million in 2013) of publicly traded equity securities of infrastructure companies categorized as Level 1, $107 million ($115 million in 2013) of term loans, bonds and infrastructure funds issued by infrastructure companies categorized as Level 2 and $764 million ($663 million in 2013) of infrastructure funds that are categorized as Level 3 and are valued based on discounted cash flows or earnings multiples. Distributions may be received throughout the term of the funds and/or upon the sale of the underlying investments.

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

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

(10) Other consists of operating assets of $145 million ($85 million in 2013) and liabilities of $130 million ($24 million in 2013) required to administer the Trusts' investment assets and the plans' benefit and funding activities. Such assets are valued at cost and have not been assigned to a fair value category.

Notes to Consolidated Financial Statements

Additional disclosures
Obligations and funded status

In millions Year ended December 31,	Pensions 2014	Pensions 2013	Other postretirement benefits 2014	Other postretirement benefits 2013
Change in benefit obligation				
Projected benefit obligation at beginning of year	$ 15,510	$ 16,335	$ 256	$ 277
Amendments	2	-	2	-
Interest cost	711	658	12	11
Actuarial loss (gain) on projected benefit obligation	1,815	(747)	6	(22)
Service cost	132	155	2	3
Plan participants' contributions	58	56	-	-
Foreign currency changes	22	16	7	5
Benefit payments, settlements and transfers	(971)	(963)	(18)	(18)
Projected benefit obligation at end of year	$ 17,279	$ 15,510	$ 267	$ 256
Component representing future salary increases	(349)	(344)	-	-
Accumulated benefit obligation at end of year	$ 16,930	$ 15,166	$ 267	$ 256
Change in plan assets				
Fair value of plan assets at beginning of year	$ 16,869	$ 15,811	$ -	$ -
Employer contributions	111	226	-	-
Plan participants' contributions	58	56	-	-
Foreign currency changes	15	10	-	-
Actual return on plan assets	1,679	1,728	-	-
Benefit payments, settlements and transfers	(971)	(962)	-	-
Fair value of plan assets at end of year	$ 17,761	$ 16,869	$ -	$ -
Funded status - Excess (deficiency) of fair value of plan assets over projected benefit obligation at end of year	$ 482	$ 1,359	$ (267)	$ (256)

Measurement date for all plans is December 31.

The projected benefit obligation and fair value of plan assets for the CN Pension Plan at December 31, 2014 were $16,059 million and $16,905 million, respectively ($14,458 million and $16,059 million, respectively, at December 31, 2013).

Amounts recognized in the Consolidated Balance Sheet

	Pensions	Other postretirement benefits

In millions	December 31,	2014	2013	2014	2013
Noncurrent assets - Pension asset		$ 882	$ 1,662	$ -	$ -
Current liabilities (Note 9)		-	-	(17)	(18)
Noncurrent liabilities - Pension and other postretirement benefits		(400)	(303)	(250)	(238)
Total amount recognized		$ 482	$ 1,359	$ (267)	$ (256)

Amounts recognized in Accumulated other comprehensive loss (Note 15)

		Pensions		Other postretirement benefits	
In millions	December 31,	2014	2013	2014	2013
Net actuarial gain (loss)		$ (2,502)	$ (1,515)	$ 17	$ 27
Prior service cost		(20)	(22)	(5)	(5)

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

		Pensions		Other postretirement benefits	
In millions	December 31,	2014	2013	2014	2013
Projected benefit obligation		$ 646	$ 527	N/A	N/A
Accumulated benefit obligation		585	475	N/A	N/A
Fair value of plan assets		246	224	N/A	N/A

Notes to Consolidated Financial Statements

Components of net periodic benefit cost (income)

In millions Year ended December 31,	Pensions 2014	2013	2012	Other postretirement benefits 2014	2013	2012
Current service cost	$ 132	$ 155	$ 134	$ 2	$ 3	$ 4
Interest cost	711	658	740	12	11	13
Curtailment gain	-	-	-	-	-	(6)
Settlement loss (gain) (1)	3	4	(12)	-	-	-
Expected return on plan assets	(978)	(958)	(994)	-	-	-
Amortization of prior service cost	4	4	4	2	1	3
Amortization of net actuarial loss (gain)	124	227	119	(4)	(1)	-
Net periodic benefit cost (income)	$ (4)	$ 90	$ (9)	$ 12	$ 14	$ 14

(1) The 2012 figure includes the settlement gain related to the termination of the former CEO's retirement benefit plan.

The estimated prior service cost and net actuarial loss for defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are $4 million and $253 million, respectively.

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

Weighted-average assumptions used in accounting for Pensions and other postretirement benefits

December 31,	Pensions 2014	2013	2012	Other postretirement benefits 2014	2013	2012
To determine projected benefit obligation						
Discount rate (1)	3.87%	4.73%	4.15%	3.86%	4.69%	4.01%
Rate of compensation increase (2)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
To determine net periodic benefit cost						
Discount rate (1)	4.73%	4.15%	4.84%	4.69%	4.01%	4.70%
Rate of compensation increase (2)	3.00%	3.00%	3.25%	3.00%	3.00%	3.25%
Expected return on plan assets (3)	7.00%	7.00%	7.25%	N/A	N/A	N/A

(1) The Company's discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year.

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

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

(3) To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers multiple factors. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current asset portfolio mix. Consideration is taken of the historical performance, the premium return generated from an actively managed portfolio, as well as current and future anticipated asset allocations, economic developments, inflation rates and administrative expenses. Based on these factors, the rate is determined by the Company. For 2014, the Company used a long-term rate of return assumption of 7.00% on the market-related value of plan assets to compute net periodic benefit cost (income). The Company has elected to use a market-related value of assets, whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments are recognized over a period of five years, while investment income is recognized immediately. In 2015, the Company will maintain the expected long-term rate of return on plan assets at 7.00% to reflect management's current view of long-term investment returns.

Health care cost trend rate for other postretirement benefits

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 7.5% for 2014 and 2015. It is assumed that the rate will decrease gradually to 4.5% in 2028 and remain at that level thereafter.

Assumed health care costs have an effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rate would have the following effect:

	One-percentage-point	
In millions	Increase	Decrease
Effect on total service and interest costs	$ 1	$ (1)
Effect on benefit obligation	12	(10)

Notes to Consolidated Financial Statements

Estimated future benefit payments

In millions	Pensions	Other postretirement benefits
2015	$ 1,011	$ 17
2016	1,034	17
2017	1,048	18
2018	1,059	18
2019	1,067	18
Years 2020 to 2024	5,379	81

Defined contribution and other plans

The Company maintains defined contribution pension plans for certain salaried employees as well as certain employees covered by collective bargaining agreements. The Company also maintains other plans including Section 401(k) savings plans for certain U.S. based employees. The Company's contributions under these plans are expensed as incurred and amounted to $16 million, $13 million and $11 million for 2014, 2013 and 2012, respectively.

Contributions to multi-employer plan

Under collective bargaining agreements, the Company participates in a multi-employer benefit plan named the Railroad Employees National Early Retirement Major Medical Benefit Plan which is administered by the National Carriers' Conference Committee (NCCC), and provides certain postretirement health care benefits to certain retirees. The Company's contributions under this plan are expensed as incurred and amounted to $10 million, $10 million and $11 million in 2014, 2013 and 2012, respectively. The annual contribution rate for the plan is determined by the NCCC and for 2014 was $141.29 per month per active employee ($143.21 in 2013). The plan covered 807 retirees in 2014 (867 in 2013).

Notes to Consolidated Financial Statements

13 – Share capital

Authorized capital stock

The authorized capital stock of the Company is as follows:

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

Issued and outstanding common shares

In millions	Year ended December 31,	2014	2013	2012
Issued and outstanding common shares at beginning of year		830.6	856.8	884.2
Number of common shares repurchased		(22.4)	(27.6)	(33.8)
Stock options exercised		1.2	1.4	6.4
Issued and outstanding common shares at end of year		809.4	830.6	856.8

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 December 31, 2014, the Company repurchased 5.6 million common shares under its current program.

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

In millions, except per share data	Year ended December 31,	2014	2013	2012
Number of common shares repurchased (1)		22.4	27.6	33.8
Weighted-average price per share (2)		$ 67.38	$ 50.65	$ 41.36
Amount of repurchase		$ 1,505	$ 1,400	$ 1,400

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

(2) Includes brokerage fees.

Share purchases by Share Trusts

In 2014, the Company established Share Trusts to purchase common shares on the open market, which will be used to deliver common shares under the Share Units Plan (see Note 14 – Stock plans). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan.

As at December 31, 2014, the Share Trusts held nil common shares of the Company. Common shares purchased by the Share Trusts will be accounted for as treasury stock. The Share Trusts may sell shares on the open market to facilitate the remittance of the Company's employee tax withholding obligations.

In 2015, the Share Trusts could purchase up to 2.0 million common shares on the open market in anticipation of future settlements of equity settled PSU awards.

Additional paid-in capital

Additional paid-in capital includes the stock-based compensation expense on equity settled awards; the excess tax benefits on stock-based compensation; and the impact of the modification of certain cash settled awards to equity settled awards. Upon the exercise of stock options, the expense related to those options is reclassified from Additional paid-in capital to Common shares. The Company reclassified prior year balances from Common shares to Additional paid-in capital in the Consolidated Balance Sheet to conform with the 2014 presentation.

Notes to Consolidated Financial Statements

Stock-based compensation and other

	2014		2013		2012	
In millions	Issued and outstanding common shares	Common shares and additional paid-in capital	Issued and outstanding common shares	Common shares and additional paid-in capital	Issued and outstanding common shares	Common shares and additional paid-in capital
Stock options exercised	1.2	$ 25	1.4	$ 28	6.4	$ 102
Equity settled stock-based compensation expense	-	11	-	9	-	10
Excess tax benefits on stock-based compensation	-	5	-	3	-	16
Modification of stock-based compensation awards (1)	-	209	-	-	-	-
Total stock-based compensation and other	1.2	$ 250	1.4	$ 40	6.4	$ 128

(1) Represents the fair value of cash settled stock-based compensation awards modified in 2014 to settle in common shares of the Company and includes $132 million related to deferred share units (DSUs), $60 million related to performance share units (PSUs) and $17 million related to other plans. See Note 14 - Stock plans.

Notes to Consolidated Financial Statements

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

Employee Share Investment Plan
The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 10% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employees' behalf, a further 35% of the amount invested by the employees, up to 6% of their gross salaries.
The following table provides the number of participants holding shares, the total number of ESIP shares purchased on behalf of employees, including the Company's contributions, as well as the resulting expense recorded for the years ended December 31, 2014, 2013 and 2012:

Year ended December 31,	2014	2013	2012
Number of participants holding shares	18,488	18,488	17,423
Total number of ESIP shares purchased on behalf of employees (millions)	2.1	2.3	2.5
Expense for Company contribution (millions)	$ 34	$ 30	$ 24

Stock-based compensation plans
The following table provides the total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the years ended December 31, 2014, 2013 and 2012:

In millions Year ended December 31,	2014	2013	2012
Cash settled awards			
Share Units Plan	$ 117	$ 92	$ 76
Voluntary Incentive Deferral Plan (VIDP)	33	35	19
Total cash settled awards	150	127	95
Equity settled awards			
Share Units Plan	2	-	-
Stock option awards	9	9	10
Total equity settled awards	11	9	10
Total stock-based compensation expense	$ 161	$ 136	$ 105
Tax benefit recognized in income	$ 43	$ 35	$ 25

Cash settled awards

(a) Share Units Plan

The objective of the Share Units plan is to enhance the Company's ability to attract and retain talented employees and to provide alignment of interests between such employees and the shareholders of the Company. The PSUs granted are scheduled for payout after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital (ROIC) over the plan period. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 150% depending on the level of ROIC attained.
Payout is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for senior and executive management employees ("executive employees"), payout for PSUs is also conditional on compliance with the conditions of their award

agreements, including but not limited to non-compete, non-solicitation and non-disclosure of confidential information conditions. Current or former executive employees who breach such conditions of their award agreements will forfeit the PSU payout. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their award agreement, the Company may at its discretion change the manner of vesting of the PSUs to suspend payout on any PSUs pending resolution of such matter.

In 2014, the Company granted 0.8 million PSUs, previously known as restricted share units (RSUs), (0.8 million in 2013 and 0.9 million in 2012) to designated management employees entitling them to receive payout in cash based on the Company's share price.

The value of the payout is equal to the number of PSUs awarded multiplied by the performance vesting factor and by the 20-day average closing share price ending on January 31 of the following year. For the plan period ended December 31, 2014, for the 2012 grant, the level of ROIC attained resulted in a performance vesting factor of 150%. As the minimum share price condition under the plan was met, payout of approximately $106 million, calculated using the Company's average closing share price for the last 20 trading days ending on January 31, 2015, will be paid to employees meeting the conditions of their benefit plans, award or employment agreements in the first quarter of 2015.

On December 9, 2014, 0.5 million cash settled PSUs granted in 2013 and 0.4 million cash settled PSUs granted in 2014 were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards. As a result, the Company reclassified $60 million from Other liabilities and deferred credits to Additional paid-in capital in the Consolidated Balance Sheet, which represents the fair value of these PSU awards at the modification date. In the future, the Company does not plan to grant additional cash settled PSU awards.

(b) Voluntary Incentive Deferral Plan

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

On December 9, 2014, 1.7 million cash settled DSUs were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards. As a result, the Company reclassified $132 million from Other liabilities and deferred credits to Additional paid-in capital in the Consolidated Balance Sheet, which represents the fair value of these DSU awards at the modification date. Notwithstanding deferrals made in 2014 related to incentive payments of 2015, the Company does not plan to provide participants the option to defer their incentive payments into cash settled DSU awards in the future.

The following table provides the number of units outstanding and the 2014 activity for all cash settled awards:

	PSUs		DSUs	
In millions	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2013	1.7	0.9	-	2.3
Granted (Payout)	0.8	(0.9)	-	(0.1)
Modifications (1)	(0.9)	-	-	(1.7)
Forfeited/Settled	-	-	-	-
Vested during year	(0.9)	0.9	-	-
Outstanding at December 31, 2014	0.7	0.9	-	0.5

(1) On December 9, 2014, certain cash settled awards were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards.

Notes to Consolidated Financial Statements

The following table provides valuation and expense information for all cash settled awards:

In millions, unless otherwise indicated	PSUs (1)						DSUs (2)	Total
Year of grant	2014	2013	2012	2011	2010	2009		
Stock-based compensation expense (recovery) recognized over requisite service period								
Year ended December 31, 2014	$ 42	$ 33	$ 44	$ (2)	N/A	N/A	$ 33	$ 150
Year ended December 31, 2013 (3)	N/A	$ 34	$ 37	$ 34	$ (4)	$ (9)	$ 35	$ 127
Year ended December 31, 2012	N/A	N/A	$ 24	$ 26	$ 26	$ -	$ 19	$ 95
Liability outstanding								
December 31, 2014	$ 19	$ 32	$ 106	$ -	N/A	N/A	$ 40	$ 197
December 31, 2013	N/A	$ 34	$ 61	$ 80	$ -	$ -	$ 145	$ 320
Fair value per unit								
December 31, 2014 ($)	$72.00	$79.01	$80.02	N/A	N/A	N/A	$ 80.02	N/A
Fair value of awards vested during the year								
Year ended December 31, 2014	$ -	$ -	$ 106	$ -	N/A	N/A	$ -	$ 106
Year ended December 31, 2013	N/A	$ -	$ -	$ 80	N/A	N/A	$ 1	$ 81
Year ended December 31, 2012	N/A	N/A	$ -	$ -	$ 70	N/A	$ 1	$ 71
Nonvested awards at December 31, 2014								
Unrecognized compensation cost	$ 17	$ 10	$ -	$ -	N/A	N/A	$ -	$ 27
Remaining recognition period (years)	2.0	1.0	N/A	N/A	N/A	N/A	N/A (4)	N/A
Assumptions (5)								
Stock price ($)	$ 80.02	$ 80.02	$ 80.02	N/A	N/A	N/A	$ 80.02	N/A
Expected stock price volatility (6)	16%	17%	N/A	N/A	N/A	N/A	N/A	N/A
Expected term (years) (7)	2.0	1.0	N/A	N/A	N/A	N/A	N/A	N/A
Risk-free interest rate (8)	1.02%	0.99%	N/A	N/A	N/A	N/A	N/A	N/A
Dividend rate ($) (9)	$ 1.00	$ 1.00	$ N/A	N/A	N/A	N/A	N/A	N/A

(1) Compensation cost is based on the fair value of the awards at period-end using the lattice-based valuation model that uses the assumptions as presented herein.

(2) Compensation cost is based on intrinsic value.

(3) Includes the reversal of approximately $20 million of stock-based compensation expense related to the forfeiture of PSUs by former executives.

(4) 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.

(5) Assumptions used to determine fair value are at December 31, 2014.

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

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

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

(9) Based on the annualized dividend rate.

Notes to Consolidated Financial Statements

Equity settled awards

(a) Share Units Plan

The objective of the Share Units plan is to enhance the Company's ability to attract and retain talented employees and to provide alignment of interests between such employees and the shareholders of the Company. The PSUs granted are scheduled to settle at the end of the plan period and vest conditionally upon the attainment of a target relating to ROIC over the plan period. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 150% depending on the level of ROIC attained.

Settlement is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for executive employees, settlement for PSUs is also 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 conditions. Current or former executive employees who breach such conditions of their benefit plans, award or employment agreements will forfeit the PSU settlement. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their benefit plans, award or employment agreement, the Company may at its discretion change the manner of vesting of the PSUs to suspend settlement on any PSUs pending resolution of such matter.

On December 9, 2014, 0.5 million cash settled PSUs granted in 2013 and 0.4 million cash settled PSUs granted in 2014 were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards.

PSUs are settled in common shares of the Company by way of disbursement from the Share Trusts (see Note 13 – Share capital). The number of shares remitted to the participant upon settlement is equal to the number of PSUs awarded multiplied by the performance vesting factor less shares withheld to satisfy the participant's minimum statutory withholding tax requirement.

(b) Voluntary Incentive Deferral Plan

The Company's VIDP provides eligible senior management employees the opportunity to elect to receive their annual incentive bonus payment and other eligible incentive payments in DSUs up to specific deferral limits. A DSU is equivalent to a common share of the Company and also earns dividends when normal cash dividends are paid on common shares. The number of DSUs received by each participant is established at time of deferral. For each participant, the Company will grant a further 25% of the amount elected in DSUs, which will vest over a period of four years. The election to receive eligible incentive payments in DSUs is no longer available to a participant when the value of the participant's vested DSUs is sufficient to meet the Company's stock ownership guidelines.

On December 9, 2014, 1.7 million cash settled DSUs were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards.

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

The following table provides the number of units outstanding and the 2014 activity for all equity settled awards, other than stock options:

	PSUs			DSUs		
	Units Nonvested In millions	Units Vested In millions	Weighted-average grant date fair value	Units Nonvested In millions	Units Vested In millions	Weighted-average grant date fair value
Outstanding at December 31, 2013	-	-	N/A	-	-	N/A
Modification (1) (2)	0.9	-	$ 71.05	-	1.7	$ 76.29

Outstanding at December 31, 2014	0.9	-	$ 71.05	-	1.7	$	76.29

(1) On December 9, 2014, 0.9 million cash-settled PSUs were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards. The modification affected PSUs held by 133 employees and did not result in the recognition of incremental compensation cost as the settlement conditions of these awards was unchanged.

(2) On December 9, 2014, 1.7 million cash-settled DSUs were modified to settle in common shares of the Company. From the modification date, these units are accounted for as equity settled awards. The modification affected DSUs held by 104 employees and did not result in the recognition of incremental compensation cost as the settlement conditions of these awards was unchanged. Vested DSUs are convertible into common shares of the Company at the time of cessation of employment. As at December 31, 2014, the aggregate intrinsic value of vested DSUs amounted to $138 million.

Notes to Consolidated Financial Statements

The following table provides valuation and expense information for all equity settled awards, other than stock options:

In millions, unless otherwise indicated	PSUs (1)		DSUs (2)	Total
Year of grant	2014	2013		
Stock-based compensation expense recognized over requisite service period				
Year ended December 31, 2014 (3)	$ 1	$ 1	$ -	$ 2
Fair value per unit				
At grant date ($) (4)	$ 66.84	$ 75.15	$ 76.29	N/A
Fair value of awards vested during the year				
Year ended December 31, 2014	$ -	$ -	$ 1	$ 1
Nonvested awards at December 31, 2014				
Unrecognized compensation cost	$ 15	$ 8	$ 1	$ 24
Remaining recognition period (years)	2.0	1.0	N/A (5)	N/A
Assumptions				
Grant price ($) (6)	$ 76.29	$ 76.29	$ 76.29	N/A
Expected stock price volatility (7)	15%	17%	N/A	N/A
Expected term (years) (8)	2.0	1.0	N/A	N/A
Risk-free interest rate (9)	1.02%	0.98%	N/A	N/A
Dividend rate ($) (10)	$ 1.00	$ 1.00	N/A	N/A

(1) Compensation cost is based on the fair value of the awards at the modification date using the lattice-based valuation model that uses the assumptions as presented herein.
(2) Compensation cost is based on intrinsic value at the modification date.
(3) Comparative information for the years ended December 31, 2013 and 2012 has not been provided as no equity settled PSUs or DSUs were outstanding.
(4) Grant date is December 9, 2014 which is the modification date of the cash settled awards to equity settled awards.
(5) 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.
(6) Stock price at the modification date.
(7) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.
(8) Represents the remaining period of time that awards are expected to be outstanding.
(9) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
(10) Based on the annualized dividend rate.

(c) Stock option awards

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options issued by the Company are conventional options that vest over a period of time. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant and expire after 10 years. At December 31, 2014, 19.2 million common shares remained authorized for future issuances under these plans.

For 2014, 2013 and 2012, the Company granted 1.0 million, 1.1 million and 1.2 million, respectively, of conventional stock options to designated executive employees that vest over a period of four years of continuous employment.

The total number of conventional options outstanding at December 31, 2014 was 7.5 million.

Notes to Consolidated Financial Statements

The following table provides the activity of stock option awards during 2014, and for options outstanding and exercisable at December 31, 2014, the weighted-average exercise price:

	Options outstanding			Nonvested options		
	Number of options In millions		Weighted-average exercise price	Number of options In millions		Weighted-average grant date fair value
Outstanding at December 31, 2013 (1)	7.7	$	30.97	2.7	$	7.89
Granted	1.0	$	58.74	1.0	$	11.09
Exercised	(1.2)	$	22.97	N/A		N/A
Vested	N/A		N/A	(1.2)	$	7.59
Outstanding at December 31, 2014 (1)	7.5	$	37.37	2.5	$	9.25
Exercisable at December 31, 2014 (1)	5.0	$	30.31	N/A		N/A

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

The following table provides the number of stock options outstanding and exercisable as at December 31, 2014 by range of exercise price and their related intrinsic value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on December 31, 2014 at the Company's closing stock price of $80.02.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options In millions	Weighted-average years to expiration	Weighted-average exercise price	Aggregate intrinsic value In millions	Number of options In millions	Weighted-average exercise price	Aggregate intrinsic value In millions
$ 16.93 - $ 23.03	0.9	3.7	$ 20.19	$ 52	0.9	$ 20.19	$ 52
$ 23.04 - $ 30.75	2.6	3.3	$ 27.04	139	2.6	$ 27.04	139
$ 30.76 - $ 41.85	1.5	6.3	$ 38.19	62	1.0	$ 38.19	41
$ 41.86 - $ 57.61	1.5	7.6	$ 48.71	49	0.5	$ 47.40	18
$ 57.62 - $ 80.15	1.0	9.1	$ 60.29	20	-	$ 58.18	-
Balance at December 31, 2014 (1)	7.5	5.6	$ 37.37	$ 322	5.0	$ 30.31	$ 250

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. As at December 31, 2014, substantially all stock options outstanding were in-the-money. The weighted-average years to expiration of exercisable stock options was 4.4 years.

Notes to Consolidated Financial Statements

The following table provides valuation and expense information for all stock option awards:

In millions, unless otherwise indicated Year of grant	2014	2013	2012	2011	2010	2009	2008	Total
Stock-based compensation expense recognized over requisite service period (1)								
Year ended December 31, 2014	$ 6	$ 1	$ 1	$ 1	$ -	N/A	N/A	$ 9
Year ended December 31, 2013	N/A	$ 5	$ 2	$ 1	$ 1	$ -	N/A	$ 9
Year ended December 31, 2012	N/A	N/A	$ 4	$ 2	$ 2	$ 2	$ -	$ 10
Fair value per unit								
At grant date ($)	$ 11.09	$ 8.52	$ 7.74	$ 7.83	$ 6.55	$ 6.30	$ 6.22	N/A
Fair value of awards vested during the year								
Year ended December 31, 2014	$ -	$ 2	$ 2	$ 3	$ 2	N/A	N/A	$ 9
Year ended December 31, 2013	N/A	$ -	$ 2	$ 3	$ 2	$ 4	N/A	$ 11
Year ended December 31, 2012	N/A	N/A	$ -	$ 2	$ 2	$ 4	$ 3	$ 11
Nonvested awards at December 31, 2014								
Unrecognized compensation cost	$ 4	$ 2	$ 1	$ -	$ -	N/A	N/A	$ 7
Remaining recognition period (years)	3.0	2.0	1.0	-	-	N/A	N/A	N/A
Assumptions								
Grant price ($)	$ 58.74	$ 47.47	$ 38.35	$ 34.47	$ 27.38	$ 21.07	$ 24.25	N/A
Expected stock price volatility (2)	23%	23%	26%	26%	28%	39%	27%	N/A
Expected term (years) (3)	5.4	5.4	5.4	5.3	5.4	5.3	5.3	N/A
Risk-free interest rate (4)	1.51%	1.41%	1.33%	2.53%	2.44%	1.97%	3.58%	N/A
Dividend rate ($) (5)	$ 1.00	$ 0.86	$ 0.75	$ 0.65	$ 0.54	$ 0.51	$ 0.46	N/A

(1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.

(2) Based on the average of the historical volatility of the Company's stock over a period commensurate with the expected term of the award and the implied volatility from traded options on the Company's stock.

(3) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical

exercise behavior are considered separately.

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

(5) Based on the annualized dividend rate.

The following table provides information related to stock options exercised for the years ended December 31, 2014, 2013 and 2012:

In millions	Year ended December 31,	2014	2013	2012
Total intrinsic value		$ 50	$ 45	$ 167
Cash received upon exercise of options		25	28	102
Related excess tax benefit realized		5	3	16

Stock price volatility

Compensation cost for the Company's cash settled Share Units Plan is based on the fair value of the awards at period end using the lattice-based valuation model for which a primary assumption is the Company's share price. In addition, the Company's liability for the cash settled VIDP is marked-to-market at period-end and, as such, is also reliant on the Company's share price. Fluctuations in the Company's share price cause volatility to stock-based compensation expense as recorded in net income. The Company does not currently hold any derivative financial instruments to manage this exposure. A $1 increase in the Company's share price at December 31, 2014 would have increased stock-based compensation expense by $2 million, whereas a $1 decrease in the price would have reduced it by $3 million.

Notes to Consolidated Financial Statements

15 – Accumulated other comprehensive loss

In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2011	$ (574)	$ (2,750)	$ 8	$ (3,316)	$ 477	$ (2,839)
Other comprehensive income (loss) before reclassifications:						
Unrealized foreign exchange loss on translation of net investment in foreign operations	(128)			(128)	2	(126)
Unrealized foreign exchange gain on translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	123			123	(19)	104
Actuarial loss arising during year		(660)		(660)	176	(484)
Prior service costs from plan amendment arising during year		(6)		(6)	2	(4)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		119		119 (1)	(32)(2)	87
Amortization of prior service cost		7		7 (1)	(2)(2)	5
Other comprehensive income (loss)	(5)	(540)	-	(545)	127	(418)
Balance at December 31, 2012	$ (579)	$ (3,290)	$ 8	$ (3,861)	$ 604	$ (3,257)
Other comprehensive income (loss) before reclassifications:						
Unrealized foreign exchange gain on translation of net investment in foreign operations	440			440	7	447
Unrealized foreign exchange loss on translation of US dollar-						

denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(394)		(394)	52	(342)
Actuarial gain arising during year		1,544	1,544	(412)	1,132
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		226	226 (1)	(60)(2)	166
Amortization of prior service cost		5	5 (1)	(1)(2)	4
Other comprehensive income (loss)	46				