CANADIAN NATIONAL RAILWAY CO
Form 6-K
July 21, 2014

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 July 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

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Press Release

Item 1

North America's Railroad

NEWS RELEASE

CN reports Q2-2014 net income of C$847 million,
up 18 per cent from year-earlier net income of C$717 million

Q2-2014 diluted earnings per share (EPS) of C$1.03 increased 24 per cent over adjusted diluted Q2-2013 EPS of C$0.83 (1)

MONTREAL, July 21, 2014 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the second quarter and six-month period ended June 30, 2014.

Second-quarter 2014 financial highlights
- Net income was C$847 million, or C$1.03 per diluted share, compared with net income of C$717 million, or C$0.84 per diluted share, for the year-earlier quarter. The Q2-2013 results included a net gain of C$13 million (C$0.01 per diluted share) resulting from a gain on a non-monetary transaction with another railway that was partly offset by the effect of the enactment of higher provincial corporate income tax rates.
- Excluding the Q2-2013 net gain, Q2-2014 diluted EPS of C$1.03 increased 24 per cent over last year's adjusted diluted EPS of C$0.83. (1)
  - Operating income for the second-quarter of 2014 increased 21 per cent to C$1,258 million.
- Second-quarter 2014 revenues increased 17 per cent to C$3,116 million, revenue ton-miles grew by 14 per cent, and carloadings increased 11 per cent.
- CN's operating ratio for Q2-2014 improved by 1.3 points to 59.6 per cent from 60.9 per cent for the year-earlier quarter.
- Free cash flow for the first half of 2014 was C$1,270 million, compared with C$788 million for the year-earlier first half. (1)

Claude Mongeau, president and chief executive officer, said: "CN recovered swiftly from the first-quarter winter weather challenges – just as our customers would expect us to do – thanks to solid execution by our dedicated team of railroaders. CN delivered record volumes in the quarter by bringing its key supply chains back into sync and taking advantage of continued strength in several of our core markets. This solid operational recovery underscores our ability to accommodate growth at low incremental cost and to drive very strong financial results."

CN's Western Canada grain hopper car movements were particularly strong during the second quarter, up nearly 70 per cent from the year-earlier period. The Company expects such hopper car movements for the crop-year ending July 31, 2014, to be a new record and close to 25 per cent higher than average crop-year movements.

Mongeau said: "We are pleased that the Canadian grain supply chain CN serves is now back in sync. Our wait-list of customer grain car orders represents only about one week of shipments from the Prairies, and grain vessel line-ups at all ports are back to normal."

Revised 2014 financial outlook (1) (2)
CN's strong second-quarter results and continued growth opportunities in intermodal, bulk and merchandise markets have prompted a positive revision to the Company's 2014 financial outlook. Under its revised 2014 outlook, CN now expects to:

- Deliver solid double-digit EPS growth in 2014 over adjusted diluted 2013 EPS of C$3.06, compared with its earlier forecast of aiming for double-digit 2014 EPS growth, and

- Generate free cash flow in the range of C$1.8 billion to C$2 billion, compared with the earlier free cash flow projection of C$1.6 billion to C$1.7 billion for 2014. (1)

Mongeau said: "The continuing success of our agenda of Operational and Service Excellence positions CN well to achieve this improved financial outlook for the year."

Foreign currency impact on results
Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN's second-quarter 2014 net income would have been lower by C$28 million, or C$0.03 per diluted share. (1)

Second-quarter 2014 revenues, traffic volumes and expenses
Revenues for the second quarter of 2014 increased by 17 per cent to C$3,116 million. Revenues increased for grain and fertilizers (35 per cent), metals and minerals (20 per cent), intermodal (17 per cent), petroleum and chemicals (17 per cent) automotive (15 per cent), forest products (nine per cent), and coal (five per cent).

The increase in revenues was mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets and market share gains, particularly in intermodal; the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; and freight rate increases.

Revenues in the second quarter of 2014 also benefited from increased volumes as the Company recovered from winter weather-related challenges that delayed shipments in the first quarter of 2014.

Carloadings for the second quarter rose 11 per cent to 1,463 thousand.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by 14 per cent over the year-earlier quarter. Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by four per cent over the year-earlier period, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by an increase in the average length of haul.

Operating expenses for the quarter increased by 14 per cent to C$1,858 million. That was mainly attributable to the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses, higher fuel costs, increased labor and fringe benefits expense and increased purchased services and material expense.

Forward-Looking Statements

Certain information included in this news release constitutes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, these forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. To the extent that CN has provided guidance that are non-GAAP financial measures, the Company may not be able to provide a reconciliation to the GAAP measures, due to unknown variables and uncertainty related to future results. Key assumptions used in determining forward-looking information are set forth below.

Current 2014 key assumptions

CN has made a number of economic and market assumptions in preparing its 2014 outlook. The Company is forecasting that North American industrial production for the year will increase by about three to four percent, compared with three per cent growth as stated in its first-quarter 2014 financial results news release issued on April 22, 2014. CN also expects U.S. housing starts to be in the range of one million units, down slightly from its April 22, 2014, forecast of 1.1 million units. CN is also assuming U.S. motor vehicles sales will be approximately 16 million units. In addition, CN is assuming 2014/2015 grain crops in Canada and the United States will be in-line with their respective five-year averages. With these assumptions, CN now assumes mid to high single-digit carload growth, compared with mid-single digit carload growth stated on April 22, 2014, along with continued pricing improvement above inflation. CN also assumes that the value of the Canadian dollar in U.S. currency will be in the range of $0.90 to $0.95 and the price of crude oil (West Texas Intermediate) to be in the range of US$95-$105 per barrel. In 2014, CN plans to invest approximately C$2.25 billion in capital program, of which approximately C$1.2 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. The capital program also includes funds for projects supporting growth and productivity.

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labor negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CN's annual and interim reports, Annual Information Form and Form 40-F filed with Canadian and U.S. securities regulators, available on CN's website, for a summary of major risk factors.

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

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

2) See Forward-Looking statements for a summary of the key assumptions and risks regarding CN's 2014 outlook.

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

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Consolidated Statement of Income - unaudited

Item 2

In millions, except per share data	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Revenues	$ 3,116	$ 2,666	$ 5,809	$ 5,132
Operating expenses				
Labor and fringe benefits	560	498	1,147	1,067
Purchased services and material	390	341	778	669
Fuel	484	402	952	807
Depreciation and amortization	257	250	513	485
Equipment rents	84	68	161	136
Casualty and other	83	65	180	146
Total operating expenses	1,858	1,624	3,731	3,310
Operating income	1,258	1,042	2,078	1,822
Interest expense	(91)	(88)	(183)	(177)
Other income (Note 3)	2	28	96	70
Income before income taxes	1,169	982	1,991	1,715
Income tax expense (Note 7)	(322)	(265)	(521)	(443)
Net income	$ 847	$ 717	$ 1,470	$ 1,272
Earnings per share (Note 10)				
Basic	$ 1.03	$ 0.85	$ 1.78	$ 1.50
Diluted	$ 1.03	$ 0.84	$ 1.77	$ 1.49
Weighted-average number of shares (Note 10)				
Basic	821.8	846.1	824.9	849.8
Diluted	825.3	849.1	828.3	852.8

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Comprehensive Income - unaudited

In millions	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Net income	$ 847	$ 717	$ 1,470	$ 1,272
Other comprehensive income (loss) (Note 11)				
Net gain (loss) on foreign currency translation	(30)	23	(5)	35
Net change in pension and other postretirement benefit plans	30	56	63	116
Other comprehensive income before income taxes	-	79	58	151
Income tax recovery (expense)	(38)	14	(14)	12
Other comprehensive income (loss)	(38)	93	44	163
Comprehensive income	$ 809	$ 810	$ 1,514	$ 1,435

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheet - unaudited

In millions	June 30 2014	December 31 2013	June 30 2013
Assets			
Current assets			
Cash and cash equivalents	$ 127	$ 214	$ 87
Restricted cash and cash equivalents (Note 4)	468	448	497
Accounts receivable (Note 4)	925	815	876
Material and supplies	355	274	330
Deferred and receivable income taxes	74	137	34
Other	93	89	81
Total current assets	2,042	1,977	1,905
Properties	26,478	26,227	25,305
Intangible and other assets	2,114	1,959	335
Total assets	$ 30,634	$ 30,163	$ 27,545
Liabilities and shareholders’ equity			
Current liabilities			
Accounts payable and other	$ 1,601	$ 1,477	$ 1,469
Current portion of long-term debt (Note 4)	621	1,021	1,322
Total current liabilities	2,222	2,498	2,791
Deferred income taxes	6,709	6,537	5,867
Pension and other postretirement benefits, net of current portion	544	541	594
Other liabilities and deferred credits	776	815	767
Long-term debt	7,040	6,819	6,141
Shareholders’ equity			
Common shares	3,975	4,015	4,063
Accumulated other comprehensive loss (Note 11)	(1,806)	(1,850)	(3,094)
Retained earnings	11,174	10,788	10,416
Total shareholders’ equity	13,343	12,953	11,385
Total liabilities and shareholders’ equity	$ 30,634	$ 30,163	$ 27,545

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity - unaudited

In millions	Three months ended June 30 2014	2013	Six months ended June 30 2014	2013
Common shares (1)				
Balance, beginning of period	$ 3,994	$ 4,088	$ 4,015	$ 4,108
Stock options exercised and other	9	10	18	27
Share repurchase programs (Note 4)	(28)	(35)	(58)	(72)
Balance, end of period	$ 3,975	$ 4,063	$ 3,975	$ 4,063
Accumulated other comprehensive loss (Note 11)				
Balance, beginning of period	$ (1,768)	$ (3,187)	$ (1,850)	$ (3,257)
Other comprehensive income (loss)	(38)	93	44	163
Balance, end of period	$ (1,806)	$ (3,094)	$ (1,806)	$ (3,094)
Retained earnings				
Balance, beginning of period	$ 10,870	$ 10,211	$ 10,788	$ 10,167
Net income	847	717	1,470	1,272
Share repurchase programs (Note 4)	(337)	(330)	(672)	(658)
Dividends	(206)	(182)	(412)	(365)
Balance, end of period	$ 11,174	$ 10,416	$ 11,174	$ 10,416

See accompanying notes to unaudited consolidated financial statements.

(1) During the three and six months ended June 30, 2014, the Company issued 0.2 million and 0.5 million common shares, respectively, as a result of stock options exercised and repurchased 5.6 million and 11.9 million common shares, respectively, under its current share repurchase program. At June 30, 2014, the Company had 819.2 million common shares outstanding.

During the three and six months ended June 30, 2013, the Company issued 0.3 million and 1.1 million common shares, respectively, as a result of stock options exercised and repurchased 7.2 million and 15.0 million common shares, respectively, under its previous share repurchase program. At June 30, 2013, the Company had 842.9 million common shares outstanding.

Consolidated Statement of Cash Flows - unaudited

In millions	Three months ended June 30 2014	2013	Six months ended June 30 2014	2013
Operating activities				
Net income	$ 847	$ 717	$ 1,470	$ 1,272
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	257	250	513	485
Deferred income taxes	53	73	148	156
Gain on disposal of property (Note 3)	-	(29)	(80)	(69)
Changes in operating assets and liabilities:				
Accounts receivable	(47)	39	(99)	(20)
Material and supplies	(27)	(38)	(81)	(95)
Accounts payable and other	143	118	96	(203)
Other current assets	24	14	11	11
Pensions and other, net	23	(81)	(60)	(153)
Net cash provided by operating activities	1,273	1,063	1,918	1,384
Investing activities				
Property additions	(482)	(418)	(730)	(646)
Disposal of property (Note 3)	-	-	97	52
Change in restricted cash and cash equivalents	3	15	(20)	24
Other, net	(15)	(8)	(15)	(2)
Net cash used in investing activities	(494)	(411)	(668)	(572)
Financing activities				
Issuance of debt, excluding commercial paper (Note 4)	-	-	347	505
Repayment of debt, excluding commercial paper	(117)	(156)	(573)	(896)
Net issuance (repayment) of commercial paper	(180)	(15)	9	551
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	6	9	13	23
Repurchase of common shares (Note 4)	(347)	(351)	(712)	(712)
Dividends paid	(206)	(182)	(412)	(365)
Net cash used in financing activities	(844)	(695)	(1,328)	(894)
Effect of foreign exchange fluctuations on US				

dollar-denominated cash and cash equivalents	(6)	2	(9)	14
Net decrease in cash and cash equivalents	(71)	(41)	(87)	(68)
Cash and cash equivalents, beginning of period	198	128	214	155
Cash and cash equivalents, end of period	$ 127	$ 87	$ 127	$ 87
Supplemental cash flow information				
Net cash receipts from customers and other	$ 3,060	$ 2,656	$ 5,732	$ 5,165
Net cash payments for:				
Employee services, suppliers and other expenses	(1,512)	(1,241)	(3,196)	(2,913)
Interest	(105)	(84)	(210)	(174)
Personal injury and other claims	(11)	(14)	(24)	(28)
Pensions (Note 6)	(7)	(109)	(100)	(210)
Income taxes	(152)	(145)	(284)	(456)
Net cash provided by operating activities	$ 1,273	$ 1,063	$ 1,918	$ 1,384

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 - Basis of presentation
In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at June 30, 2014, December 31, 2013 and June 30, 2013, and its results of operations, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2014 and 2013.

To be consistent with the basis of presentation used in preparing the Company's 2013 Annual Consolidated Financial Statements, these unaudited Interim Consolidated Financial Statements and Notes thereto reflect the fourth quarter 2013 common stock split and net basis disclosure of commercial paper as described below.
On October 22, 2013, the Board of Directors of the Company approved a two-for-one common stock split in the form of a stock dividend of one additional common share of CN for each share outstanding, paid on November 29, 2013 to shareholders of record on November 15, 2013. At the effective date of the stock split, all equity-based benefit plans and share repurchase programs were adjusted to reflect the issuance of such additional shares. All share and per share data presented herein reflect the impact of the stock split.
Beginning with the fourth quarter of 2013, the Company revised the Consolidated Statement of Cash Flows to present on a net basis the issuances and repayments of commercial paper, all of which have a maturity of less than 90 days and which were previously reported on a gross basis.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2013 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's 2013 Annual Consolidated Financial Statements and Notes thereto.

2 - Accounting change
On May 28, 2014, the Financial Accounting Standards Board (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 the transition method to apply the new standard.

3 - Disposal of property
2014
Deux-Montagnes
On February 28, 2014, the Company closed a transaction with Agence Métropolitaine de Transport to sell the Deux-Montagnes subdivision between Saint-Eustache and Montreal, Quebec, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), for cash proceeds of $97 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Deux-Montagnes at its then current level of operating activity, with the possibility of increasing its operating activity

for additional consideration. The transaction resulted in a gain on disposal of $80 million ($72 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

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 has accounted for the exchange of easements at fair value pursuant to FASB Accounting Standards Codification (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 Unaudited 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.

4 - Financing activities

Shelf prospectus and registration statement

On February 11, 2014, under its current shelf prospectus and registration statement which expires January 2016, the Company issued $250 million 2.75% Notes due 2021 in the Canadian capital markets, which resulted in net proceeds of $247 million, intended for general corporate purposes, including the redemption and refinancing of outstanding indebtedness and share repurchases.

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 Company plans to use the credit facility for working capital and general corporate purposes, including backstopping its commercial paper program. As at June 30, 2014 and December 31, 2013, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the six months ended June 30, 2014.

Commercial paper

The Company has a commercial paper program, which is backed 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 June 30, 2014, the Company had total borrowings of $285 million ($273 million as at December 31, 2013) presented in Current portion of long-term debt on the Consolidated Balance Sheet at a weighted-average interest rate of 1.14% (1.14% as at December 31, 2013).

Accounts receivable securitization program

The Company has a three-year agreement that expires on February 1, 2016 to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million.

The Company accounts for the proceeds of its accounts receivable securitization program as a secured borrowing under ASC 860, Transfers and Servicing. As such, as at June 30, 2014, the Company recorded $250 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 1.21% (1.18% as at December 31, 2013) which is secured by and limited to $279 million ($281 million as at December 31, 2013) of accounts receivable.

Bilateral letter of credit facilities and Restricted cash and cash equivalents

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 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 June 30, 2014, the Company had letters of credit drawn of $491 million ($481 million as at December 31, 2013) from a total committed amount of $510 million ($503 million as at December 31, 2013) by the various banks. As at June 30, 2014, cash and cash equivalents of $468 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.

Notes to Unaudited Consolidated Financial Statements

Share repurchase programs

On October 22, 2013, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 30.0 million common shares, between October 29, 2013 and October 23, 2014, pursuant to a normal course issuer bid at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange.

The following table provides the information related to the share repurchase programs for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30		Six months ended June 30	
In millions, except per share data	2014	2013	2014	2013
Number of common shares repurchased (1)	5.6	7.2	11.9	15.0
Weighted-average price per share (2)	$ 64.70	$ 50.52	$ 61.29	$ 48.71
Amount of repurchase	$ 365	$ 365	$ 730	$ 730

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

(2) Includes brokerage fees.

5 - Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided in Note 10 – Stock plans to the Company's 2013 Annual Consolidated Financial Statements. The following table provides total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30		Six months ended June 30	
In millions	2014	2013	2014	2013
Cash settled awards				
Share Unit Plan (1)	$ 31	$ 11	$ 45	$ 21
Voluntary Incentive Deferral Plan (VIDP)	20	(1)	21	13
Total cash settled awards	51	10	66	34
Stock option awards	3	2	5	4
Total stock-based compensation expense	$ 54	$ 12	$ 71	$ 38
Tax benefit recognized in income	$ 15	$ 2	$ 19	$ 8

(1) The six months ended June 30, 2013 includes the reversal of approximately $20 million of stock-based compensation expense related to the forfeiture of performance share units by former executives.

Cash settled awards

Share Unit Plan

Following approval by the Board of Directors in January 2014, the Company granted 0.8 million performance share units (PSUs), previously known as restricted share units to designated management employees entitling them to receive payout in cash based on the Company's share price. The PSUs granted are generally scheduled for payout after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital over the plan period.

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 on 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 payout. 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 payout on any PSUs pending resolution of such matter.

Notes to Unaudited Consolidated Financial Statements

The following table provides the 2014 activity for all cash settled awards:

	PSUs		VIDP	
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)
Outstanding at June 30, 2014	2.5	-	-	2.2

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

In millions, unless otherwise indicated	PSUs (1)						VIDP (2)	Total
Year of grant	2014	2013	2012	2011	2010	2009		
Stock-based compensation expense (recovery) recognized over requisite service period								
Six months ended June 30, 2014	$ 11	$ 18	$ 18	$ (2)	$ -	$ -	$ 21	$ 66
Six months ended June 30, 2013 (3)	N/A	$ 7	$ 15	$ 12	$ (4)	$ (9)	$ 13	$ 34
Liability outstanding								
June 30, 2014	$ 11	$ 52	$ 79	$ -	$ -	$ -	$ 160	$ 302
December 31, 2013	N/A	$ 34	$ 61	$ 80	$ -	$ -	$ 145	$ 320
Fair value per unit								
June 30, 2014 ($)	$ 52.43	$ 67.73	$ 68.90	N/A	N/A	N/A	$ 69.40	N/A
Fair value of awards vested during the period								
Six months ended June 30, 2014	$ -	$ -	$ -	$ -	N/A	N/A	$ 1	$ 1
Six months ended June 30, 2013	N/A	$ -	$ -	$ -	$ -	N/A	$ 1	$ 1
Nonvested awards at June 30, 2014								
Unrecognized compensation cost	$ 27	$ 24	$ 9	$ -	N/A	N/A	$ 2	$ 62
Remaining recognition period (years)	2.5	1.5	0.5	N/A	N/A	N/A	N/A (4)	N/A
Assumptions (5)								
Stock price ($)	$ 69.40	$ 69.40	$ 69.40	N/A	N/A	N/A	$ 69.40	N/A
Expected stock price volatility (6)	15 %	13 %	13 %	N/A	N/A	N/A	N/A	N/A
	2.5	1.5	0.5	N/A	N/A	N/A	N/A	N/A

Expected term (years) (7)											
Risk-free interest rate (8)	1.14	%	1.06	%	0.97	%	N/A	N/A	N/A	N/A	N/A
Dividend rate ($) (9)	$ 1.00		$ 1.00		$ 1.00		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 June 30, 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.

Stock option awards

Following approval by the Board of Directors in January 2014, the Company granted 1.0 million conventional stock options to designated senior management employees. The stock option plan allows 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 grant. 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 June 30, 2014, 19.2 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at June 30, 2014 was 8.2 million.

Notes to Unaudited Consolidated Financial Statements

The following table provides the activity of stock option awards during 2014, and for options outstanding and exercisable at June 30, 2014, the weighted-average exercise price and 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 June 30, 2014 at the Company's closing stock price of $69.40 on the Toronto Stock Exchange.

	Options outstanding			
	Number of options	Weighted-average exercise price	Weighted-average years to expiration	Aggregate intrinsic value
	In millions			In millions
Outstanding at December 31, 2013 (1)	7.7	$ 30.97		
Granted	1.0	$ 58.72		
Exercised	(0.5)	$ 24.53		
Outstanding at June 30, 2014 (1)	8.2	$ 34.46	5.8	$ 285
Exercisable at June 30, 2014 (1)	5.6	$ 28.06	4.6	$ 233

(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 valuation and expense information for all stock option awards:

In millions, unless otherwise indicated							
Year of grant	2014	2013	2012	2011	2010	2009	Total
Stock-based compensation expense recognized over requisite service period (1)							
Six months ended June 30, 2014	$ 3	$ 1	$ -	$ 1	$ -	$ -	$ 5
Six months ended June 30, 2013	N/A	$ 2	$ 1	$ 1	$ -	$ -	$ 4
Fair value per unit							
At grant date ($)	$ 11.08	$ 8.52	$ 7.74	$ 7.83	$ 6.55	$ 6.30	N/A
Fair value of awards vested during the period							
Six months ended June 30, 2014	$ -	$ 2	$ 2	$ 3	$ 2	$ -	$ 9
Six months ended June 30, 2013	N/A	$ -	$ 2	$ 3	$ 2	$ 4	$ 11

Nonvested awards at June 30, 2014													
Unrecognized compensation cost	$ 7		$ 2		$ 1		$ 1		$ -		$ -		$ 11
Remaining recognition period (years)	3.5		2.5		1.5		0.5		-		-		N/A
Assumptions													
Grant price ($)	$ 58.72		$ 47.47		$ 38.35		$ 34.47		$ 27.38		$ 21.07		N/A
Expected stock price volatility (2)	23	%	23	%	26	%	26	%	28	%	39	%	N/A
Expected term (years) (3)	5.4		5.4		5.4		5.3		5.4		5.3		N/A
Risk-free interest rate (4)	1.51	%	1.41	%	1.33	%	2.53	%	2.44	%	1.97	%	N/A
Dividend rate ($) (5)	$ 1.00		$ 0.86		$ 0.75		$ 0.65		$ 0.54		$ 0.51		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.

Notes to Unaudited Consolidated Financial Statements

6 - 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). Executive employees who breach the non-compete, non-solicitation and non-disclosure of confidential information conditions of the SRS, SERP or DC SERP plans or other employment agreement 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 or other employment agreement, the Company may at its discretion withhold or suspend payout of the retirement benefit pending resolution of such matter.

For the three and six months ended June 30, 2014 and 2013, the components of net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

Components of net periodic benefit cost (income) for pensions

In millions	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Service cost	$31	$37	$66	$78
Interest cost	177	165	355	329
Settlement gain	-	-	-	(1)
Expected return on plan assets	(244)	(240)	(489)	(479)
Amortization of prior service cost	1	1	2	2
Amortization of net actuarial loss	30	54	62	113
Net periodic benefit cost (income)	$(5)	$17	$(4)	$42

Components of net periodic benefit cost for other postretirement benefits

In millions	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Service cost	$-	$-	$1	$1
Interest cost	4	3	6	5
Amortization of prior service cost	-	1	1	1