

CANADIAN NATIONAL RAILWAY CO
 Form 6-K
 October 23, 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 October 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 1 News Release dated October 21, 2014 entitled, "CN reports Q3-2014 net income of C\$853 million, up 21 per cent from year-earlier net income of C\$705 million"
"Q3-2014 diluted earnings per share (EPS) of C\$1.04 increased 21 per cent over adjusted diluted Q3-2013 EPS of C\$0.86 (1) "

Item 2 Unaudited Consolidated Financial Statements and Notes thereto

Item 3 Management's Discussion and Analysis

Item 4 CEO Certificate

Item 5 CFO Certificate

Item 1

North America's Railroad

NEWS RELEASE

CN reports Q3-2014 net income of C\$853 million, up 21 per cent from year-earlier net income of C\$705 million

Q3-2014 diluted earnings per share (EPS) of C\$1.04 increased 21 per cent over adjusted diluted Q3-2013 EPS of C\$0.86 (1)

CN generated record quarterly revenues and improved operating ratio to 58.8 per cent

MONTREAL, Oct. 21, 2014 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the third quarter and nine-month period ended Sept. 30, 2014.

Third-quarter and nine-month 2014 financial highlights

- Net income was C\$853 million, or C\$1.04 per diluted share, compared with net income of C\$705 million, or C\$0.84 per diluted share, for the year-earlier quarter. The Q3-2013 results included a C\$19-million (C\$0.02 per diluted share) income tax expense resulting from the enactment of higher provincial corporate income tax rates.
- Excluding the above Q3-2013 income tax expense, Q3-2014 diluted EPS of C\$1.04 increased 21 per cent over last year's adjusted diluted EPS of C\$0.86. (1)
 - Operating income for the third quarter of 2014 increased 19 per cent to C\$1,286 million.
- Third-quarter 2014 revenues and carloadings set all-time quarterly records, with revenues rising 16 per cent to C\$3,118 million and carloadings increasing 11 per cent to 1,475 thousand. Revenue ton-miles grew by 13 per cent.
- CN's operating ratio for Q3-2014 improved by one point to 58.8 per cent from 59.8 per cent for the year-earlier quarter.
- Free cash flow for the first nine months of 2014 was C\$2,045 million, up from C\$1,307 million for the comparable period of 2013. (1)

Claude Mongeau, president and chief executive officer, said: "CN delivered outstanding third-quarter financial results while improving customer service levels and maintaining industry-leading operating efficiencies. Solid execution by our team of railroaders enabled us to accommodate the significantly higher freight volume generated by a record Canadian grain crop, strong energy markets, and new business, particularly in intermodal and automotive.

"The results underscore CN's commitment to investing ahead of the curve in resources and rail infrastructure and playing our role as a true backbone of the economy."

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 third-quarter 2014 net income would have been lower by C\$22 million, or C\$0.03 per diluted share. (1)

Third-quarter 2014 revenues, traffic volumes and expenses

Revenues for the third quarter of 2014 increased by 16 per cent to an all-time quarterly high of C\$3,118 million. Revenues increased for grain and fertilizers (29 per cent), petroleum and chemicals (21 per cent), metals and minerals (17 per cent), automotive (17 per cent), intermodal (14 per cent), and forest products (eight per cent). Coal revenues declined by three per cent.

The increase in revenues was mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets, particularly crude oil and frac sand, new intermodal business including temporary diversions from U.S. west coast ports, as well as new automotive business; the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues; and freight rate increases.

Carloadings for the third quarter rose 11 per cent to 1,475 thousand, an all-time record quarterly performance.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased by 13 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 two 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\$1,832 million. The increase was mainly attributable to increased purchased services and material expense, increased labor and fringe benefits expense, the negative translation impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses and higher fuel costs.

Forward-Looking Statements (2)

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.

Financial outlook and 2014 key assumptions

CN maintains the 2014 financial outlook it issued on July 21, 2014. The Company expects to deliver solid double-digit EPS growth in 2014 over adjusted diluted 2013 EPS of C\$3.06, and to generate free cash flow in the range of C\$1.8 billion to C\$2 billion, excluding major asset sales.

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, and that U.S. housing starts will be in the range of one million units. CN is also assuming U.S. motor vehicles sales will be approximately 16 million units. In addition, CN is assuming the 2014/2015 grain crop in Canada will be in-line with the five-year average, and is now assuming the 2014/2015 grain crop in the U.S. will be above the five-year average. With these assumptions, CN assumes mid to high single-digit carload growth 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 on average for the full-year 2014. In 2014, CN plans to invest approximately C\$2.25 billion in its 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.

- 30 -

Contacts:

Media
Mark Hallman
Director
Communications and Public Affairs

Investment Community
Janet Drysdale
Vice-President
Investor Relations

(905) 669-3384

(514) 399-0052

3

Consolidated Statement of Income - unaudited
Item 2

In millions, except per share data	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenues	\$ 3,118	\$ 2,698	\$ 8,927	\$ 7,830
Operating expenses				
Labor and fringe benefits	580	521	1,727	1,588
Purchased services and material	378	318	1,156	987
Fuel	446	390	1,398	1,197
Depreciation and amortization	258	241	771	726
Equipment rents	83	68	244	204
Casualty and other	87	76	267	222
Total operating expenses	1,832	1,614	5,563	4,924
Operating income	1,286	1,084	3,364	2,906
Interest expense	(94)	(89)	(277)	(266)
Other income (loss) (Note 3)	(2)	5	94	75
Income before income taxes	1,190	1,000	3,181	2,715
Income tax expense (Note 7)	(337)	(295)	(858)	(738)
Net income	\$ 853	\$ 705	\$ 2,323	\$ 1,977
Earnings per share (Note 10)				
Basic	\$ 1.04	\$ 0.84	\$ 2.83	\$ 2.34
Diluted	\$ 1.04	\$ 0.84	\$ 2.81	\$ 2.33
Weighted-average number of shares (Note 10)				
Basic	817.0	839.3	822.2	846.2
Diluted	820.9	842.2	825.8	849.2

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statement of Comprehensive Income - unaudited

In millions	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net income	\$ 853	\$ 705	\$ 2,323	\$ 1,977
Other comprehensive income (loss) (Note 11)				
Net gain (loss) on foreign currency translation	44	(11)	39	24
Net change in pension and other postretirement benefit plans	32	57	95	173
Amortization of gain on treasury lock	(1)	-	(1)	-
Other comprehensive income before income taxes	75	46	133	197
Income tax recovery (expense)	32	(32)	18	(20)
Other comprehensive income	107	14	151	177
Comprehensive income	\$ 960	\$ 719	\$ 2,474	\$ 2,154

See accompanying notes to unaudited consolidated financial statements.

Canadian National Railway Company

5

Consolidated Balance Sheet - unaudited

In millions	September 30 2014	December 31 2013	September 30 2013
Assets			
Current assets			
Cash and cash equivalents	\$ 176	\$ 214	\$ 182
Restricted cash and cash equivalents (Note 4)	467	448	529
Accounts receivable (Note 4)	939	815	868
Material and supplies	372	274	317
Deferred and receivable income taxes	72	137	74
Other	82	89	67
Total current assets	2,108	1,977	2,037
Properties	27,410	26,227	25,383
Intangible and other assets	2,155	1,959	377
Total assets	\$ 31,673	\$ 30,163	\$ 27,797
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other	\$ 1,718	\$ 1,477	\$ 1,499
Current portion of long-term debt (Note 4)	485	1,021	1,488
Total current liabilities	2,203	2,498	2,987
Deferred income taxes	6,920	6,537	5,884
Pension and other postretirement benefits, net of current portion	554	541	589
Other liabilities and deferred credits	893	815	760
Long-term debt	7,356	6,819	6,010
Shareholders' equity			
Common shares	3,965	4,015	4,036
Accumulated other comprehensive loss (Note 11)	(1,699)	(1,850)	(3,080)
Retained earnings	11,481	10,788	10,611
Total shareholders' equity	13,747	12,953	11,567
Total liabilities and shareholders' equity	\$ 31,673	\$ 30,163	\$ 27,797
See accompanying notes to unaudited consolidated financial statements.			

Consolidated Statement of Changes in Shareholders' Equity - unaudited

In millions	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Common shares (1)				
Balance, beginning of period	\$ 3,975	\$ 4,063	\$ 4,015	\$ 4,108
Stock options exercised and other	13	8	31	35
Share repurchase programs (Note 4)	(23)	(35)	(81)	(107)
Balance, end of period	\$ 3,965	\$ 4,036	\$ 3,965	\$ 4,036
Accumulated other comprehensive loss (Note 11)				
Balance, beginning of period	\$ (1,806)	\$ (3,094)	\$ (1,850)	\$ (3,257)
Other comprehensive income	107	14	151	177
Balance, end of period	\$ (1,699)	\$ (3,080)	\$ (1,699)	\$ (3,080)
Retained earnings				
Balance, beginning of period	\$ 11,174	\$ 10,416	\$ 10,788	\$ 10,167
Net income	853	705	2,323	1,977
Share repurchase programs (Note 4)	(342)	(330)	(1,014)	(988)
Dividends	(204)	(180)	(616)	(545)
Balance, end of period	\$ 11,481	\$ 10,611	\$ 11,481	\$ 10,611

See accompanying notes to unaudited consolidated financial statements.

(1) During the three and nine months ended September 30, 2014, the Company issued 0.4 million and 0.9 million common shares, respectively, as a result of stock options exercised and repurchased 4.9 million and 16.8 million common shares, respectively, under its current share repurchase program. At September 30, 2014, the Company had 814.7 million common shares outstanding.

During the three and nine months ended September 30, 2013, the Company issued 0.1 million and 1.2 million common shares, respectively, as a result of stock options exercised and repurchased 7.1 million and 22.1 million common shares, respectively, under its previous share repurchase program. At September 30, 2013, the Company had 835.9 million common shares outstanding.

Consolidated Statement of Cash Flows - unaudited

In millions	Three months ended		Nine months ended	
	September 30 2014	2013	September 30 2014	2013
Operating activities				
Net income	\$853	\$705	\$2,323	\$1,977
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	258	241	771	726
Deferred income taxes	67	13	215	169
Gain on disposal of property (Note 3)	-	-	(80)	(69)
Changes in operating assets and liabilities:				
Accounts receivable	26	(3)	(73)	(23)
Material and supplies	(11)	11	(92)	(84)
Accounts payable and other	100	57	196	(146)
Other current assets	13	17	24	28
Pensions and other, net	22	25	(38)	(128)
Net cash provided by operating activities	1,328	1,066	3,246	2,450
Investing activities				
Property additions	(620)	(539)	(1,350)	(1,185)
Disposal of property (Note 3)	76	-	173	52
Change in restricted cash and cash equivalents	1	(32)	(19)	(8)
Other, net	(9)	(8)	(24)	(10)
Net cash used in investing activities	(552)	(579)	(1,220)	(1,151)
Financing activities				
Issuance of debt, excluding commercial paper (Note 4)	-	210	347	715
Repayment of debt, excluding commercial paper	(222)	(104)	(795)	(1,000)
Net issuance of commercial paper	64	58	73	609
Issuance of common shares due to exercise of stock options and related excess tax benefits realized				
	11	5	24	28
Repurchase of common shares (Note 4)	(383)	(383)	(1,095)	(1,095)
Dividends paid	(204)	(180)	(616)	(545)
Net cash used in financing activities	(734)	(394)	(2,062)	(1,288)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents				
	7	2	(2)	16
Net increase (decrease) in cash and cash equivalents	49	95	(38)	27
Cash and cash equivalents, beginning of period	127	87	214	155
Cash and cash equivalents, end of period	\$176	\$182	\$176	\$182
Supplemental cash flow information				
Net cash receipts from customers and other	\$3,213	\$2,633	\$8,945	\$7,798
Net cash payments for:				
Employee services, suppliers and other expenses	(1,561)	(1,256)	(4,757)	(4,169)
Interest	(87)	(85)	(297)	(259)
Personal injury and other claims	(14)	(16)	(38)	(44)

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Pensions (Note 6)	(6)	(11)	(106)	(221)
Income taxes	(217)	(199)	(501)	(655)
Net cash provided by operating activities	\$1,328		\$1,066		\$3,246		\$2,450	

See accompanying notes to unaudited consolidated financial statements.

Canadian National Railway Company

8

Notes to Unaudited Consolidated Financial Statements

1 - Basis of presentation

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

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 which transition method to apply.

3 - 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 sale is expected to be recognized in 2018, when the Company

will have relinquished substantially all of the risks and rewards of ownership on the Guelph.

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.

Canadian National Railway Company

9

Notes to Unaudited Consolidated Financial Statements

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.

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 September 30, 2014 and December 31, 2013, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the nine months ended September 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 September 30, 2014, the Company had total borrowings of \$350 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 1.12% (1.14% as at December 31, 2013).

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.

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 September 30, 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 1.23% (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.

Canadian National Railway Company

10

Notes to Unaudited Consolidated Financial Statements

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 September 30, 2014, the Company had letters of credit drawn of \$493 million (\$481 million as at December 31, 2013) from a total committed amount of \$514 million (\$503 million as at December 31, 2013) by the various banks. As at September 30, 2014, cash and cash equivalents of \$467 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.

Share repurchase programs

On October 22, 2013, the Board of Directors of the Company had approved a share repurchase program which allowed 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 Company repurchased a total of 22.3 million common shares for \$1.4 billion under this share repurchase program.

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

In millions, except per share data	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Number of common shares repurchased (1)	4.9	7.1	16.8	22.1
Weighted-average price per share (2)	\$ 75.55	\$ 51.17	\$ 65.40	\$ 49.51
Amount of repurchase	\$ 365	\$ 365	\$ 1,095	\$ 1,095

Includes common shares purchased in the first quarters of 2014 and 2013 pursuant to private agreements

(1) between the Company and arm's length third-party sellers.

(2) Includes brokerage fees.

See Note 12 – Subsequent event for additional information on the Company's new share repurchase program approved on October 21, 2014.

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 nine months ended September 30, 2014 and 2013:

In millions	Three months ended		Nine months ended	
	September 30 2014	2013	September 30 2014	2013
Cash settled awards				
Share Unit Plan (1)	\$40	\$17	\$85	\$38
Voluntary Incentive Deferral Plan (VIDP)	19	4	40	17
Total cash settled awards	59	21	125	55
Stock option awards	2	3	7	7
Total stock-based compensation expense	\$61	\$24	\$132	\$62

Tax benefit recognized in income	\$16	\$7	\$35	\$15
----------------------------------	------	-----	------	------

(1) The nine months ended September 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.

Canadian National Railway Company

11

Notes to Unaudited Consolidated Financial Statements

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 or 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 benefit plans or 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 benefit plans or award agreements; 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.

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

In millions	PSUs		VIDP	
	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 September 30, 2014	2.5	-	-	2.2

Canadian National Railway Company

12

Notes to Unaudited Consolidated Financial Statements

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								
Nine months ended September 30, 2014	\$ 22	\$ 30	\$ 35	\$ (2)	\$ -	\$ -	\$ 40	\$ 125
Nine months ended September 30, 2013 (3)	N/A	\$ 12	\$ 22	\$ 17	\$ (4)	\$ (9)	\$ 17	\$ 55
Liability outstanding								
September 30, 2014	\$ 23	\$ 65	\$ 96	\$ -	\$ -	\$ -	\$ 178	\$ 362
December 31, 2013	N/A	\$ 34	\$ 61	\$ 80	\$ -	\$ -	\$ 145	\$ 320
Fair value per unit								
September 30, 2014 (\$)	\$ 71.29	\$ 78.27	\$ 79.26	N/A	N/A	N/A	\$ 79.51	N/A
Fair value of awards vested during the period								
Nine months ended September 30, 2014	\$ -	\$ -	\$ -	\$ -	N/A	N/A	\$ 1	\$ 1
Nine months ended September 30, 2013	N/A	\$ -	\$ -	\$ -	\$ -	N/A	\$ 1	\$ 1
Nonvested awards at September 30, 2014								
Unrecognized compensation cost	\$ 30	\$ 23	\$ 5	\$ -	N/A	N/A	\$ 2	\$ 60
Remaining recognition period (years)	2.3	1.3	0.3	N/A	N/A	N/A	N/A (4)	N/A
Assumptions (5)								
Stock price (\$)	\$ 79.51	\$ 79.51	\$ 79.51	N/A	N/A	N/A	\$ 79.51	N/A
Expected stock price volatility (6)	14 %	13 %	13 %	N/A	N/A	N/A	N/A	N/A
Expected term (years) (7)	2.3	1.3	0.3	N/A	N/A	N/A	N/A	N/A
Risk-free interest rate (8)	1.13 %	1.03 %	0.92 %	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 September 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 September 30, 2014, 19.2 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at September 30, 2014 was 7.8 million.

Canadian National Railway Company

13

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 September 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 September 30, 2014 at the Company's closing stock price of \$79.51 on the Toronto Stock Exchange.

	Options outstanding			Aggregate intrinsic value In millions
	Number of options In millions	Weighted-average exercise price	Weighted-average years to expiration	
Outstanding at December 31, 2013 (1)	7.7	\$ 30.97		
Granted	1.0	\$ 58.74		
Exercised	(0.9)	\$ 23.17		
Outstanding at September 30, 2014 (1)	7.8	\$ 36.19	5.8	\$335
Exercisable at September 30, 2014 (1)	5.2	\$ 29.40	4.6	\$262

(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)							
Nine months ended September 30, 2014	\$ 4	\$ 1	\$ 1	\$ 1	\$ -	\$ -	\$ 7
Nine months ended September 30, 2013	N/A	\$ 4	\$ 1	\$ 1	\$ 1	\$ -	\$ 7
Fair value per unit At grant date (\$)	\$ 11.09	\$ 8.52	\$ 7.74	\$ 7.83	\$ 6.55	\$ 6.30	N/A
Fair value of awards vested during the period							
Nine months ended September 30,	\$ -	\$ 2	\$ 2	\$ 3	\$ 2	\$ -	\$ 9

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

2014 Nine months ended September 30, 2013	N/A	\$ -	\$ 2	\$ 3	\$ 2	\$ 4	\$ 11
Nonvested awards at September 30, 2014							
Unrecognized compensation cost	\$ 5	\$ 2	\$ 1	\$ 1	\$ -	\$ -	\$ 9
Remaining recognition period (years)	3.3	2.3	1.3	0.3	-	-	N/A
Assumptions							
Grant price (\$)	\$ 58.74	\$ 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

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

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

For the three and nine months ended September 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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Service cost	\$ 33	\$ 39	\$ 99	\$ 117
Interest cost	178	165	533	494
Settlement gain	-	-	-	(1)
Expected return on plan assets	(245)	(240)	(734)	(719)
Amortization of prior service cost	1	1	3	3
Amortization of net actuarial loss	31	57	93	170
Net periodic benefit cost (income)	\$ (2)	\$ 22	\$ (6)	\$ 64

Components of net periodic benefit cost for other postretirement benefits

In millions	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	3	8	8
Amortization of prior service cost	1	-	2	1
Amortization of net actuarial gain	(1)	(1)	(3)	(1)
Net periodic benefit cost	\$ 3	\$ 3	\$ 9	\$ 10

Company contributions to its various pension plans are made in accordance with the applicable legislation in Canada and the United States (U.S.) and are determined by actuarial valuations. Actuarial valuations are generally required on an annual basis both in Canada and the U.S. The latest actuarial valuations for funding purposes for the Company’s Canadian pension plans, based on a valuation date of December 31, 2013, were filed in June 2014 and identified a going-concern surplus of approximately \$1.6 billion and a solvency deficit of approximately \$1.7 billion calculated using the three-year average of the Company’s hypothetical wind-up ratio in accordance with the Pension Benefit Standards Regulations, 1985. Under Canadian legislation, the solvency deficit is required to be funded through special solvency payments, for which each annual amount is equal to one fifth of the solvency deficit, and is re-established at each valuation date.

Pension contributions made in the first nine months of 2014 and 2013 of \$106 million and \$221 million, respectively, mainly represent contributions to the Company's main pension plan, the CN Pension Plan. These pension contributions are for the current service cost as determined under the Company's current actuarial valuations for funding purposes. The Company expects to make total cash contributions in 2014 of approximately \$130 million for all of the Company's pension plans. Voluntary contributions can be treated as a prepayment against the Company's required special solvency deficit payments. As at December 31, 2013, the Company had approximately \$470 million of accumulated prepayments available to offset future required solvency deficit payments. The Company applied approximately \$250 million of such prepayments during the first nine months of 2014 and will apply approximately \$75 million for the remainder of the year.

Additional information relating to the pension plans is provided in Note 11 – Pensions and other postretirement benefits to the Company's 2013 Annual Consolidated Financial Statements.

Canadian National Railway Company

15

Notes to Unaudited Consolidated Financial Statements

7 - Income taxes

The Company recorded income tax expense of \$337 million and \$858 million for the three and nine months ended September 30, 2014, respectively, compared to \$295 million and \$738 million, respectively, for the same periods in 2013.

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

Included in the 2013 figures was a net income tax recovery of \$7 million consisting of a \$19 million and a \$5 million income tax expense resulting from the enactment of higher provincial corporate income tax rates, which were recorded in the third and second quarter respectively; a \$15 million income tax recovery resulting from the recognition of U.S. state income tax losses, which was recorded in the second quarter; and a \$16 million income tax recovery resulting from a revision of the apportionment of U.S. state income taxes which was recorded in the first quarter.

8 - Major commitments and contingencies

Commitments

As at September 30, 2014, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$966 million (\$482 million as at December 31, 2013). The Company also has estimated remaining commitments of approximately \$283 million (US\$252 million), in relation to the U.S. federal government legislative requirement to implement Positive Train Control (PTC) by December 31, 2015.

In addition, the Company has estimated remaining commitments, through to December 31, 2016, of approximately \$66 million (US\$59 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company. These commitments are for railroad infrastructure improvements, grade separation projects as well as commitments under a series of agreements with individual communities and a comprehensive voluntary mitigation program established to address surrounding municipalities' concerns.

The Company also has agreements with fuel suppliers which allow but do not require the Company to purchase approximately all of its estimated remaining 2014 volume, approximately 80% of its anticipated 2015 volume, 70% of its anticipated 2016 volume and 20% of its anticipated 2017 volume at market prices prevailing on the date of the purchase.

Contingencies

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

Canada

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

United States

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

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

Canadian National Railway Company

16

Notes to Unaudited Consolidated Financial Statements

As at September 30, 2014, the Company had aggregate reserves for personal injury and other claims of \$318 million, of which \$49 million was recorded as a current liability (\$316 million as at December 31, 2013, of which \$45 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending at September 30, 2014, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity in a particular quarter or fiscal year.

Environmental matters

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

Known existing environmental concerns

The Company has identified approximately 260 sites at which it is or may be liable for remediation costs, in some cases along with other potentially responsible parties, associated with alleged contamination and is subject to environmental clean-up and enforcement actions, including those imposed by the United States Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), also known as the Superfund law, or analogous state laws. CERCLA and similar state laws, in addition to other similar Canadian and U.S. laws, generally impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site, as well as those whose waste is disposed of at the site, without regard to fault or the legality of the original conduct. The Company has been notified that it is a potentially responsible party for study and clean-up costs at approximately 10 sites governed by the Superfund law (and analogous state laws) for which investigation and remediation payments are or will be made or are yet to be determined and, in many instances, is one of several potentially responsible parties.

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

account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

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

As at September 30, 2014, the Company had aggregate accruals for environmental costs of \$118 million, of which \$43 million was recorded as a current liability (\$119 million as at December 31, 2013, of which \$41 million was recorded as a current liability). The Company anticipates that the majority of the liability at September 30, 2014 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its provisions to be adequate.

Canadian National Railway Company

17

Notes to Unaudited Consolidated Financial Statements

Unknown existing environmental concerns

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

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

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

Guarantees and indemnifications

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

The Company is required to recognize a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. In addition, where the Company expects to make a payment in respect of a guarantee, a liability will be recognized to the extent that one has not yet been recognized.

Guarantee of residual values of operating leases

The Company has guaranteed a portion of the residual values of certain of its assets under operating leases with expiry dates between 2014 and 2022, for the benefit of the lessor. If the fair value of the assets at the end of their respective lease term is less than the fair value, as estimated at the inception of the lease, then the Company must, under certain conditions, compensate the lessor for the shortfall. As at September 30, 2014, the maximum exposure in respect of these guarantees was \$187 million. There are no recourse provisions to recover any amounts from third parties.

Other guarantees

As at September 30, 2014, the Company, including certain of its subsidiaries, had granted \$493 million of irrevocable standby letters of credit and \$95 million of surety and other bonds, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at September 30, 2014, the maximum potential liability under these guarantee instruments was \$588 million, of which \$525 million related to workers' compensation and other employee benefit liabilities and \$63 million related to other

liabilities. The letters of credit were drawn on the Company's bilateral letter of credit facilities. The Company had not recorded a liability as at September 30, 2014 with respect to these guarantee instruments as they related to the Company's future performance and the Company did not expect to make any payments under these guarantee instruments. The majority of the guarantee instruments mature at various dates between 2014 and 2016.

Canadian National Railway Company

18

Notes to Unaudited Consolidated Financial Statements

General indemnifications

In the normal course of business, the Company has provided indemnifications, customary for the type of transaction or for the railway business, in various agreements with third parties, including indemnification provisions where the Company would be required to indemnify third parties and others. Indemnifications are found in various types of contracts with third parties which include, but are not limited to:

- (a) contracts granting the Company the right to use or enter upon property owned by third parties such as leases, easements, trackage rights and sidetrack agreements;
- (b) contracts granting rights to others to use the Company's property, such as leases, licenses and easements;
- (c) contracts for the sale of assets;
- (d) contracts for the acquisition of services;
- (e) financing agreements;
- (f) trust indentures, fiscal agency agreements, underwriting agreements or similar agreements relating to debt or equity securities of the Company and engagement agreements with financial advisors;
- (g) transfer agent and registrar agreements in respect of the Company's securities;
- (h) trust and other agreements relating to pension plans and other plans, including those establishing trust funds to secure payment to certain officers and senior employees of special retirement compensation arrangements;
- (i) pension transfer agreements;
- (j) master agreements with financial institutions governing derivative transactions;
- (k) settlement agreements with insurance companies or other third parties whereby such insurer or third-party has been indemnified for any present or future claims relating to insurance policies, incidents or events covered by the settlement agreements; and
- (l) acquisition agreements.

To the extent of any actual claims under these agreements, the Company maintains provisions for such items, which it considers to be adequate. Due to the nature of the indemnification clauses, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined.

During the period, the Company entered into various indemnification contracts with third parties for which the maximum exposure for future payments cannot be reasonably determined. As a result, no liability was recorded. There are no recourse provisions to recover any amounts from third parties.

9 - Financial instruments

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is believed to be consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

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

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

Canadian National Railway Company

19

Notes to Unaudited Consolidated Financial Statements

Intangible and other assets

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

Debt

The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. The Company's debt is classified as Level 2.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as at September 30, 2014 and December 31, 2013 for which the carrying values on the Consolidated Balance Sheet are different from their fair values:

In millions	September 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investments	\$ 58	\$ 175	\$ 57	\$ 164
Financial liabilities				
Total debt	\$ 7,841	\$ 8,988	\$ 7,840	\$ 8,683

10 - Earnings per share

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

In millions, except per share data	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Net income	\$853	\$705	\$2,323	\$1,977
Weighted-average shares outstanding	817.0	839.3	822.2	846.2
Effect of stock options	3.9	2.9	3.6	3.0
Weighted-average diluted shares outstanding	820.9	842.2	825.8	849.2
Basic earnings per share	\$1.04	\$0.84	\$2.83	\$2.34
Diluted earnings per share	\$1.04	\$0.84	\$2.81	\$2.33

Basic earnings per share are calculated based on the weighted-average number of common shares outstanding over each period. Diluted earnings per share are calculated based on the weighted-average diluted shares outstanding using the treasury stock method, which assumes that any proceeds received from the exercise of in-the-money stock options would be used to purchase common shares at the average market price for the period.

Canadian National Railway Company

20

Notes to Unaudited Consolidated Financial Statements

11 – Accumulated other comprehensive loss

The components of Accumulated other comprehensive loss are as follows:

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 June 30, 2014	\$ (538)\$	(1,452)\$	8 \$	(1,982)\$	176 \$	(1,806)
Other comprehensive income (loss)						
before reclassifications:						
Unrealized foreign exchange gain on translation of net investment in foreign operations	349			349	-	349
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	(305)			(305)	41	(264)
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		30		30 (1)	(9)(2)	21
Amortization of prior service cost		2		2 (1)	- (2)	2
Amortization of gain on treasury lock			(1) ⁽³⁾	(1)	-	(1)
Other comprehensive income (loss)	44	32	(1)	75	32	107
Balance at September 30, 2014	\$ (494)\$	(1,420)\$	7 \$	(1,907)\$	208 \$	(1,699)
In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2013	\$ (533)\$	(1,515)\$	8 \$	(2,040)\$	190 \$	(1,850)

Other comprehensive
income (loss)

before reclassifications:

Unrealized foreign exchange gain on translation of net investment in foreign operations	368		368	-	368		
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	(329)		(329)	42	(287)		
Amounts reclassified from Accumulated other comprehensive loss:							
Amortization of net actuarial loss		90	90	(1)	(24)	(2)	66
Amortization of prior service cost		5	5	(1)	-	(2)	5
Amortization of gain on treasury lock			(1)	(3)	(1)	-	(1)
Other comprehensive income (loss)	39	95	(1)	133	18		151
Balance at September 30, 2014	\$ (494)	\$ (1,420)	\$ 7	\$ (1,907)	\$ 208		\$ (1,699)

(1) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 6 - Pensions and other postretirement benefits.

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

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

Canadian National Railway Company

21

Notes to Unaudited Consolidated Financial Statements

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 June 30, 2013	\$ (544)\$	(3,174)\$	8 \$	(3,710)\$	616 \$	(3,094)
Other comprehensive income (loss)						
before reclassifications:						
Unrealized foreign exchange loss on translation of net investment in foreign operations	(134)			(134)	-	(134)
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	(17)	106
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		56		56 (1)	(15)(2)	41
Amortization of prior service cost		1		1 (1)	- (2)	1
Other comprehensive income (loss)	(11)	57	-	46	(32)	14
Balance at September 30, 2013	\$ (555)\$	(3,117)\$	8 \$	(3,664)\$	584 \$	(3,080)

In millions	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Derivative instruments	Total before tax	Income tax recovery (expense)	Total net of tax
Balance at December 31, 2012	\$ (579)\$	(3,290)\$	8 \$	(3,861)\$	604 \$	(3,257)
Other comprehensive income (loss)						
before reclassifications:						

Unrealized foreign exchange gain on translation of net investment in foreign operations	221		221	-	221	
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	(197)		(197)	25	(172)	
Amounts reclassified from Accumulated other comprehensive loss:						
Amortization of net actuarial loss		169	169	(1)	(44) (2)	125
Amortization of prior service cost		4	4	(1)	(1) (2)	3
Other comprehensive income (loss)	24	173	-	197	(20)	177
Balance at September 30, 2013	\$ (555)\$	(3,117)\$	8 \$	(3,664)\$	584 \$	(3,080)

(1) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 6 - Pensions and other postretirement benefits.

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

Canadian National Railway Company

22

Notes to Unaudited Consolidated Financial Statements

12 - Subsequent event

Share repurchase program

On October 21, 2014, the Board of Directors of the Company approved a new share repurchase program, which allows for the repurchase of up to 28.0 million common shares between October 24, 2014 and October 23, 2015, 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.

Canadian National Railway Company

23

Selected Railroad Statistics - unaudited

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Statistical operating data				
Rail freight revenues (\$ millions) (1)	2,920	2,519	8,440	7,367
Gross ton miles (GTM) (millions)	115,348	100,321	333,067	298,169
Revenue ton miles (RTM) (millions)	58,946	52,188	172,361	155,466
Carloads (thousands)	1,475	1,333	4,177	3,880
Route miles (includes Canada and the U.S.)	19,600	19,900	19,600	19,900
Employees (end of period)	25,032	23,664	25,032	23,664
Employees (average for the period)	24,915	23,756	24,412	23,706
Productivity				
Operating ratio (%)	58.8	59.8	62.3	62.9
Rail freight revenue per RTM (cents) (1)	4.95	4.83	4.90	4.74
Rail freight revenue per carload (\$) (1)	1,980	1,890	2,021	1,899
Operating expenses per GTM (cents)	1.59	1.61	1.67	1.65
Labor and fringe benefits expense per GTM (cents)	0.50	0.52	0.52	0.53
GTMs per average number of employees (thousands)	4,630	4,223	13,644	12,578
Diesel fuel consumed (US gallons in millions)	108.1	96.8	327.3	302.0
Average fuel price (\$/US gallon)	3.62	3.52	3.80	3.52
GTMs per US gallon of fuel consumed	1,067	1,036	1,018	987
Safety indicators				
Injury frequency rate (per 200,000 person hours) (2)	2.17	1.72	1.91	1.52
Accident rate (per million train miles) (2)	3.25	1.37	2.69	2.04
Financial ratio				
Debt-to-total capitalization ratio (%) at end of period) (3)	36.3	39.3	36.3	39.3

Statistical operating data, productivity measures and safety indicators are based on estimated data available at such time and are subject to change as more complete information becomes available, as such certain of the comparative data have been restated.

(1) In 2014, certain Other revenues were reclassified to the commodity groups within rail freight revenues. This change has no impact on the Company's previously reported results of operations as Total revenues remains unchanged. The 2013 comparative figures have been reclassified in order to be consistent with the 2014 presentation.

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

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

Canadian National Railway Company

24

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Supplementary Information - unaudited

	Three months ended September 30				Nine months ended September 30			
	2014	2013	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) (2)	2014	2013	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) (2)
Revenues (millions of dollars) (1)								
Petroleum and chemicals	594	489	21%	18%	1,726	1,431	21%	15%
Metals and minerals	388	332	17%	13%	1,066	929	15%	9%
Forest products	393	365	8%	4%	1,125	1,064	6%	1%
Coal	185	191	(3%)	(6%)	568	553	3%	(1%)
Grain and fertilizers	469	363	29%	26%	1,426	1,162	23%	19%
Intermodal	731	642	14%	12%	2,068	1,808	14%	12%
Automotive	160	137	17%	13%	461	420	10%	5%
Total rail freight revenues	2,920	2,519	16%	13%	8,440	7,367	15%	10%
Other revenues	198	179	11%	7%	487	463	5%	1%
Total revenues	3,118	2,698	16%	13%	8,927	7,830	14%	10%
Revenue ton miles (millions)								
Petroleum and chemicals	13,576	11,033	23%	23%	39,234	32,428	21%	21%
Metals and minerals	6,664	5,825	14%	14%	17,691	16,022	10%	10%
Forest products	7,581	7,508	1%	1%	21,718	22,317	(3%)	(3%)
Coal	5,289	6,057	(13%)	(13%)	16,316	17,342	(6%)	(6%)
Grain and fertilizers	12,116	9,105	33%	33%	37,502	30,556	23%	23%
Intermodal	12,868	11,986	7%	7%	37,577	34,722	8%	8%
Automotive	852	674	26%	26%	2,323	2,079	12%	12%
Total revenue ton miles	58,946	52,188	13%	13%	172,361	155,466	11%	11%
Rail freight revenue / RTM (cents) (1)								
Petroleum and chemicals	4.38	4.43	(1%)	(4%)	4.40	4.41	-	(5%)
Metals and minerals	5.82	5.70	2%	(1%)	6.03	5.80	4%	(1%)
Forest products	5.18	4.86	7%	3%	5.18	4.77	9%	4%
Coal	3.50	3.15	11%	8%	3.48	3.19	9%	5%
Grain and fertilizers	3.87	3.99	(3%)	(5%)	3.80	3.80	-	(3%)
Intermodal	5.68	5.36	6%	4%	5.50	5.21	6%	4%
Automotive	18.78	20.33	(8%)	(11%)	19.85	20.20	(2%)	(6%)
Total rail freight revenue per RTM	4.95	4.83	2%	-	4.90	4.74	3%	-

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Carloads (thousands)								
Petroleum and chemicals	168	152	11%	11%	489	452	8%	8%
Metals and minerals	295	285	4%	4%	769	803	(4%)	(4%)
Forest products	111	114	(3%)	(3%)	324	338	(4%)	(4%)
Coal	126	109	16%	16%	392	316	24%	24%
Grain and fertilizers	153	126	21%	21%	465	401	16%	16%
Intermodal	563	493	14%	14%	1,567	1,402	12%	12%
Automotive	59	54	9%	9%	171	168	2%	2%
Total carloads	1,475	1,333	11%	11%	4,177	3,880	8%	8%
Rail freight revenue / carload (dollars) (1)								
Petroleum and chemicals	3,536	3,217	10%	7%	3,530	3,166	11%	7%
Metals and minerals	1,315	1,165	13%	9%	1,386	1,157	20%	14%
Forest products	3,541	3,202	11%	7%	3,472	3,148	10%	5%
Coal	1,468	1,752	(16%)	(18%)	1,449	1,750	(17%)	(20%)
Grain and fertilizers	3,065	2,881	6%	4%	3,067	2,898	6%	2%
Intermodal	1,298	1,302	-	(2%)	1,320	1,290	2%	-
Automotive	2,712	2,537	7%	4%	2,696	2,500	8%	3%
Total rail freight revenue per carload	1,980	1,890	5%	2%	2,021	1,899	6%	3%

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

- (1) In 2014, certain Other revenues were reclassified to the commodity groups within rail freight revenues. This change has no impact on the Company's previously reported results of operations as Total revenues remains unchanged. The 2013 comparative figures have been reclassified in order to be consistent with the 2014 presentation.
- (2) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

Non-GAAP Measures

Adjusted performance measures

For the three and nine months ended September 30, 2014, the Company reported adjusted net income of \$853 million, or \$1.04 per diluted share and \$2,251 million, or \$2.72 per diluted share, respectively. The adjusted figures for the nine months ended September 30, 2014 exclude a gain on disposal of the Deux-Montagnes subdivision, including the Mont-Royal tunnel, together with the rail fixtures, of \$80 million, or \$72 million after-tax (\$0.09 per diluted share).

For the three and nine months ended September 30, 2013, the Company reported adjusted net income of \$724 million, or \$0.86 per diluted share and \$1,947 million, or \$2.30 per diluted share, respectively. The adjusted figures for the three and nine months ended September 30, 2013 exclude an income tax expense of \$19 million (\$0.02 per diluted share) resulting from the enactment of higher provincial corporate income tax rates. The adjusted figures for the nine months ended September 30, 2013 also exclude a gain on exchange of perpetual railroad operating easements, including the track and roadway assets on specific rail lines, of \$29 million, or \$18 million after-tax (\$0.02 per diluted share); an income tax expense of \$5 million (\$0.01 per diluted share) resulting from the enactment of higher provincial corporate income tax rates and a gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements, of \$40 million, or \$36 million after-tax (\$0.04 per diluted share).

Management believes that adjusted net income and adjusted earnings per share are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of the normal day-to-day operations of the Company and could distort the analysis of trends in business performance. The exclusion of such items in adjusted net income and adjusted earnings per share does not, however, imply that such items are necessarily non-recurring. These adjusted measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. The reader is advised to read all information provided in the Company's 2014 unaudited Interim Consolidated Financial Statements and Notes thereto. The following tables provide a reconciliation of net income and earnings per share, as reported for the three and nine months ended September 30, 2014 and 2013, to the adjusted performance measures presented herein.

In millions, except per share data	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	\$ 3,118	\$ -	\$ 3,118	\$ 8,927	\$ -	\$ 8,927
Operating expenses	1,832	-	1,832	5,563	-	5,563
Operating income	1,286	-	1,286	3,364	-	3,364
Interest expense	(94)	-	(94)	(277)	-	(277)
Other income (loss)	(2)	-	(2)	94	(80)	14
Income before income taxes	1,190	-	1,190	3,181	(80)	3,101
Income tax expense	(337)	-	(337)	(858)	8	(850)
Net income	\$ 853	\$ -	\$ 853	\$ 2,323	\$ (72)	\$ 2,251
Operating ratio	58.8 %		58.8 %	62.3 %		62.3 %
Effective tax rate	28.3 %		28.3 %	27.0 %		27.4 %
Basic earnings per share	\$ 1.04	\$ -	\$ 1.04	\$ 2.83	\$ (0.09)	\$ 2.74
Diluted earnings per share	\$ 1.04	\$ -	\$ 1.04	\$ 2.81	\$ (0.09)	\$ 2.72

In millions, except per share data	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Revenues	\$ 2,698	\$ -	\$ 2,698	\$ 7,830	\$ -	\$ 7,830
Operating expenses	1,614	-	1,614	4,924	-	4,924

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Operating income	1,084	-	1,084	2,906	-	2,906
Interest expense	(89)	-	(89)	(266)	-	(266)
Other income	5	-	5	75	(69)	6
Income before income taxes	1,000	-	1,000	2,715	(69)	2,646
Income tax expense	(295)	19	(276)	(738)	39	(699)
Net income	\$ 705	\$ 19	\$ 724	\$ 1,977	\$ (30)	\$ 1,947
Operating ratio	59.8 %		59.8 %	62.9 %		62.9 %
Effective tax rate	29.5 %		27.6 %	27.2 %		26.4 %
Basic earnings per share	\$ 0.84	\$ 0.02	\$ 0.86	\$ 2.34	\$ (0.03)	\$ 2.31
Diluted earnings per share	\$ 0.84	\$ 0.02	\$ 0.86	\$ 2.33	\$ (0.03)	\$ 2.30

Canadian National Railway Company

26

Non-GAAP Measures

Constant currency

Although CN conducts its business and reports its earnings in Canadian dollars, a large portion of revenues and expenses is denominated in US dollars. As such, the Company's results are affected by exchange rate fluctuations. Financial results at "constant currency" allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period of the prior year. The average foreign exchange rates were \$1.09 per US\$1.00, for both the three and nine months ended September 30, 2014, and \$1.04 and \$1.02 per US\$1.00, respectively, for the three and nine months ended September 30, 2013.

On a constant currency basis, the Company's net income for the three and nine months ended September 30, 2014 would have been lower by \$22 million, or \$0.03 per diluted share and \$76 million, or \$0.09 per diluted share, respectively. The following table presents a reconciliation of 2014 net income as reported to net income on a constant currency basis:

In millions	Three months ended September 30, 2014	Nine months ended September 30, 2014
Net income, as reported	\$ 853	\$ 2,323
Impact due to the weakening Canadian dollar included in net income	(18)	(70)
Decrease due to the weakening Canadian dollar on additional year-over-year US\$ net income	(4)	(6)
Impact of foreign exchange using constant currency rates	(22)	(76)
Net income, on a constant currency basis	\$ 831	\$ 2,247

Free cash flow

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

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

In millions	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net cash provided by operating activities	\$1,328	\$1,066	\$3,246	\$2,450
Net cash used in investing activities	(552)	(579)	(1,220)	(1,151)
Net cash provided before financing activities	776	487	2,026	1,299
Adjustment:				
Change in restricted cash and cash equivalents	(1)	32	19	8
Free cash flow	\$775	\$519	\$2,045	\$1,307

Canadian National Railway Company

27

Management's Discussion and Analysis

Item 3

Management's discussion and analysis (MD&A) relates to the financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or "the Company." Canadian National Railway Company's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP). The Company's objective is to provide meaningful and relevant information reflecting the Company's financial position and results of operations. In certain instances, the Company may make reference to certain non-GAAP measures that, from management's perspective, are useful measures of performance. The reader is advised to read all information provided in the MD&A in conjunction with the Company's 2014 unaudited Interim Consolidated Financial Statements and Notes thereto as well as the 2013 Annual MD&A.

Business profile

CN is engaged in the rail and related transportation business. CN's network of approximately 20,000 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network, and its co-production arrangements, routing protocols, marketing alliances, and interline agreements, provide CN customers access to all three North American Free Trade Agreement (NAFTA) nations. CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. For the nine months ended September 30, 2014, no individual commodity group accounted for more than 23% of total revenues. From a geographic standpoint, 17% of revenues relate to United States (U.S.) domestic traffic, 32% transborder traffic, 19% Canadian domestic traffic and 32% overseas traffic. The Company is the originating carrier for approximately 85% of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Corporate organization

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

See Note 14 – Segmented information to the Company's 2013 Annual Consolidated Financial Statements for additional information on the Company's corporate organization, as well as selected financial information by geographic area.

Strategy overview

CN's focus is on running a safe and efficient railroad. While remaining at the forefront of the rail industry, CN's goal is to be internationally regarded as one of the best-performing transportation companies.

CN's commitment is to create value for both its customers and shareholders. By deepening customer engagement, leveraging the strength of its franchise, and delivering operational and service excellence, the Company seeks to provide quality and cost-effective service that creates value for its customers.

CN's corporate goals are generally based on five key financial performance targets: revenues, operating income, earnings per share, free cash flow and return on invested capital, as well as various key operating and customer service metrics that the Company focuses on to measure efficiency, safety and quality of service. By striving for sustainable financial performance through profitable growth, adequate free cash flow and return on invested capital, CN seeks to deliver increased shareholder value. 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.

For 2014, the Company's Board of Directors approved an increase of 16% to the quarterly dividend to common shareholders, from \$0.215 per share in 2013 to \$0.250 per share. On October 22, 2013, the Company's Board of Directors had approved a share repurchase program which allowed for the repurchase of up to 30.0 million common shares, between October 29, 2013 and October 23, 2014. The Company repurchased a total of 22.3 million common shares for \$1.4 billion under this share repurchase program. On October 21, 2014,

Canadian National Railway Company

28

Management's Discussion and Analysis

the Company's Board of Directors approved a new share repurchase program, which allows for the repurchase of up to 28.0 million common shares between October 24, 2014 and October 23, 2015. Share repurchases are made 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.

CN's business model is anchored on five core principles: providing quality service, controlling costs, focusing on asset utilization, committing to safety and sustainability, and developing people. For many years, CN has operated with a mindset that drives efficiency. The CN Precision Railroading model, which focuses on improving every process that affects delivery of customers' goods, continues to guide the Company's performance. It is a highly disciplined process whereby CN handles individual rail shipments according to a specific trip plan and manages all aspects of railroad operations to meet customer commitments efficiently and profitably. It demands discipline to execute the trip plan, the relentless measurement of results, and the use of such results to generate further execution improvements in the service provided to customers. It also aims to increase velocity, improve reliability, lower costs, enhance asset utilization and, ultimately, help the Company to grow the top line. The Company maintains that philosophy today and works hard to run more efficient trains, reduce dwell times at terminals and improve overall network velocity. With CN's business model, fewer railcars and locomotives are needed to ship the same amount of freight in a tight, reliable and efficient operation. The railroad is run based on a disciplined operating methodology, executing with a sense of urgency and accountability. This philosophy has been a key contributor to CN's earnings growth and improved return on invested capital. The Company has also set its sights on becoming a true supply chain enabler by helping to elevate service performance end-to-end. CN is pursuing better end-to-end service and greater operating efficiencies while helping customers win in their own markets. While CN is a leader in fast and reliable service hub-to-hub, the Company strives to distinguish itself by bringing greater value to the entire range of customer touch points. The Company continues to strengthen its commitment to operational and service excellence through a wide range of innovations anchored on its continuous improvement philosophy. CN's major push in first-mile/last-mile activities is all about quality interaction with customers – from developing a sharper outside-in perspective to better monitoring of traffic forecasts; from the Company's car management distribution activities to higher and more responsive car order fulfillment; and from improving customer communication to iAdvise (proactive customer communication system at the local level). CN's broad-based service innovations benefit customers and support the Company's goal to grow the business faster than the overall economy. CN understands the importance of being the best operator in the business, and being the best service innovator as well. Service excellence means expanding CN's perspective, working more closely, and building on mutual trust, with customers and supply chain partners as well as involving all relevant areas of the Company in the process. The success of the business model is dependent on commercial principles and a supportive regulatory environment, both of which are key to an effective rail transportation marketplace throughout North America.

Providing quality service, controlling costs and focusing on asset utilization

The basic driver of the Company's business is demand for reliable, efficient, and cost effective transportation. As such, the Company's focus is the pursuit of its long-term business plan, delivering operational and service excellence by providing a high level of service to customers while operating safely and efficiently, and meeting short- and long-term financial commitments.

In 2014, the Company expects North American industrial production to increase in the range of three to four percent as well as continued improvements in U.S. housing starts and U.S. automotive sales. For the 2014/2015 crop year, the Company assumes Canadian grain production to be in line with the five-year average and U.S. grain production to be above the five-year average.

To meet its business plan objectives, the Company's priority is to grow the business at low incremental cost. The Company's strategy to pursue deeper customer engagement and service improvements is expected to continue to drive growth. Improvements are coming from several key thrusts including first-mile/last-mile initiatives that improve customer service at origin and destination, and a supply chain perspective that emphasizes collaboration and better end-to-end service. The Company sees opportunities for growth across most markets, led by energy-related

commodities, particularly crude oil and frac sand; by overseas container traffic; by market share gains against truck in domestic intermodal; by a continued recovery in the U.S. housing market; as well as continued strong grain offshore exports. Longer term, the Company expects growth in offshore export markets including metallurgical and thermal coal as well as potash.

To grow the business at low incremental cost and to operate efficiently and safely while maintaining a high level of customer service, the Company continues to invest in capital programs to maintain a safe and fluid railway and pursue strategic initiatives to improve its franchise, as well as undertake productivity initiatives to reduce costs and leverage its assets. Opportunities to improve productivity extend across all functions in the organization. Train productivity is being improved through the acquisition of locomotives that are more fuel-efficient than the ones they replace, which will also improve service reliability for customers and reduce greenhouse gas emissions. In addition, the Company's locomotives are being equipped with distributed power capability, which allows the Company to run longer, more efficient trains, particularly in cold weather conditions, while improving train handling, reducing train separations and improving the overall safety of operations. These initiatives, combined with CN's investments in longer sidings over the years, offer train-mile savings, allow for efficient long-train operations and reduce wear on rail and wheels. Yard throughput is being improved through SmartYard, an innovative use of real-time traffic information to sequence cars effectively and get them out on the line more quickly in the face of constantly changing conditions. In Engineering, the Company is continuously working to increase the productivity of its field forces, through better use of traffic information

Canadian National Railway Company

29

Management's Discussion and Analysis

and the optimization of work scheduling and as a result, better management of its engineering forces on the track. The Company also intends to continue focusing on the reduction of accidents and related costs, as well as costs for legal claims and health care.

CN's capital expenditure programs support the Company's commitment to its core principles and strategy and its ability to grow the business profitably. In 2014, CN plans to invest approximately \$2.25 billion in its capital program, of which approximately \$1.2 billion is targeted toward maintaining the safety and integrity of the network, particularly track infrastructure. This investment will include the replacement of rail, ties, and other track materials, bridge improvements, as well as various branch line upgrades.

In 2014, CN's equipment capital expenditures are targeted to reach approximately \$350 million, allowing the Company to tap growth opportunities and improve the quality of the fleet. In order to handle expected traffic increase and improve operational efficiency, 60 new high-horsepower locomotives will be added to the fleet by the end of the year in addition to the 44 new and 37 second-hand high-horsepower locomotives received in 2013. Of these 60 locomotives, 15 have already been received to-date. Furthermore, orders have been placed for 120 additional locomotives to be received in 2015 and 2016.

In 2014, CN also expects to spend approximately \$700 million on facilities, such as transloads and distribution centers, to grow the business, and to improve the productivity and fluidity of the network. The investment includes funds for strategic initiatives, information technology to improve service and operating efficiency, and other projects to increase productivity.

To meet short- and long-term financial commitments, the Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet by monitoring its credit ratios and preserving an investment-grade credit rating to be able to maintain access to public financing. The Company's principal source of liquidity is cash generated from operations, which can be supplemented by its commercial paper program and its accounts receivable securitization program to meet short-term liquidity needs. The Company's primary uses of funds are for working capital requirements, including income tax installments, pension contributions, and contractual obligations; capital expenditures relating to track infrastructure and other; acquisitions; dividend payouts; and the repurchase of shares through share buyback programs. The Company sets priorities on its uses of available funds based on short-term operational requirements, expenditures to continue to operate a safe railway and pursue strategic initiatives, while also considering its long-term contractual obligations and returning value to its shareholders.

Delivering responsibly

The Company's commitment to safety is reflected in the wide range of initiatives that CN is pursuing and in the size of its capital programs. Comprehensive plans are in place to address safety, security, employee well-being and environmental management. CN's Safety Management Plan is the framework for putting safety at the center of its day-to-day operations. This proactive plan is designed to minimize risk and drive continuous improvement in the reduction of injuries and accidents, and engages employees at all levels of the organization.

The Company has made sustainability an integral part of its business strategy by aligning its sustainability agenda with its business model. As part of the Company's comprehensive sustainability action plan and to comply with the CN Environmental Policy, the Company engages in a number of initiatives, including the use of fuel-efficient locomotives that reduce greenhouse gas emissions; increasing operational and building efficiencies; investing in virtualization technologies, energy-efficient data centers and recycling programs for information technology systems; reducing, recycling and reusing waste at its facilities and on its network; engaging in modal shift agreements that favor low emission transport services; and participating in the Carbon Disclosure Project to gain a more comprehensive view of its carbon footprint.

The CN Environmental Policy aims to minimize the impact of the Company's activities on the environment. The Company strives to contribute to the protection of the environment by integrating environmental priorities into the Company's overall business plan and through the specific monitoring and measurement of such priorities against historical performance and in some cases, specific targets. All employees must demonstrate commitment to the CN Environmental Policy at all times and it is the Environment, Safety and Security Committee of the Board of Directors

that has the responsibility of overseeing this policy. This committee's responsibilities, powers and operation are further described in its charter, which is included in the Company's Corporate Governance Manual available on CN's website. Certain risk mitigation strategies, such as periodic audits, employee training programs and emergency plans and procedures, are in place to minimize the environmental risks to the Company.

The CN Environmental Policy, the Company's CDP (formerly known as "Carbon Disclosure Project") Report, and the Corporate Citizenship Report "Delivering Responsibly" are available on CN's website. In 2014, the Company's sustainability practices earned it a place as the leader in the Transportation and Transportation Infrastructure Industry sector of the Dow Jones Sustainability World Index (DJSI). This was the third consecutive year that the Company had been listed on the DJSI World Index and the sixth straight year on the DJSI North American Index.

In addition, for its actions to reduce carbon emissions and mitigate the business risks of climate change, CN has been awarded with a position on The A List: The CDP Climate Performance Leadership Index 2014.

Canadian National Railway Company

30

Management's Discussion and Analysis

Developing people

CN's ability to develop the best railroaders in the industry has been a key contributor to the Company's success. CN recognizes that without the right people – no matter how good a service plan or business model a company may have – it will not be able to fully execute. The Company is focused on recruiting the right people, developing employees with the right skills, motivating them to do the right thing, and training them to be the future leaders of the Company. As part of a new revitalized company-wide training program aimed at preparing railroaders to be highly skilled, safety conscious and confident in their work environment, CN opened a new state-of-the-art training center located in Winnipeg, Manitoba, in April 2014, and another one in suburban Chicago, Illinois, in July 2014. The Company continues to address changes in employee demographics that will span multiple years. The Human Resources and Compensation Committee of the Board of Directors reviews the progress made in developing current and future leaders through the Company's leadership development programs. These programs and initiatives provide a solid platform for the assessment and development of the Company's talent pool. The leadership development programs are tightly integrated with the Company's business strategy.

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

Impact of foreign currency translation on reported results

Although the Company conducts its business and reports its earnings in Canadian dollars, a large portion of revenues and expenses is denominated in US dollars. As such, the Company's results are affected by exchange rate fluctuations. Management's discussion and analysis includes reference to "constant currency," which allows the financial results to be viewed without the impact of fluctuations in foreign exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rate of the comparable period of the prior year. The average foreign exchange rates were \$1.09 per US\$1.00, for both the three and nine months ended September 30, 2014, and \$1.04 and \$1.02 per US\$1.00, respectively, for the three and nine months ended September 30, 2013. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies.

Management's Discussion and Analysis

Forward-looking statements

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

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. Key assumptions used in determining forward-looking information are set forth below.

Forward-looking statements	Key assumptions or expectations
<p>Statements relating to general economic and business conditions, including those referring to revenue growth opportunities</p>	<ul style="list-style-type: none"> · North American and global economic growth · Long-term growth opportunities being less affected by current economic conditions · Year-over-year carload growth
<p>Statements relating to the Company's ability to meet debt repayments and future obligations in the foreseeable future, including income tax payments, and capital spending</p>	<ul style="list-style-type: none"> · North American and global economic growth · Adequate credit ratios · Investment grade credit rating · Access to capital markets · Adequate cash generated from operations and other sources of financing
<p>Statements relating to pension contributions</p>	<ul style="list-style-type: none"> · Adequate cash generated from operations and other sources of financing · Adequate long-term return on investment on pension plan assets · Level of funding as determined by actuarial valuations, particularly influenced by discount rates for funding purposes

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or regulatory developments; compliance with environmental laws and regulations; actions by regulators; various events which could disrupt operations, including natural events such as

severe weather, droughts, floods and earthquakes; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the U.S. See the section of this MD&A entitled Business risks for detailed information on major risk factors.

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

Canadian National Railway Company

32

Management's Discussion and Analysis

Financial and statistical highlights

\$ in millions, except per share data or unless otherwise indicated	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Financial results				
Revenues	\$ 3,118	\$ 2,698	\$ 8,927	\$ 7,830
Operating income	\$ 1,286	\$ 1,084	\$ 3,364	\$ 2,906
Net income (1) (2)	\$ 853	\$ 705	\$ 2,323	\$ 1,977
Operating ratio	58.8 %	59.8 %	62.3 %	62.9 %
Basic earnings per share (1) (2)	\$ 1.04	\$ 0.84	\$ 2.83	\$ 2.34
Diluted earnings per share (1) (2)	\$ 1.04	\$ 0.84	\$ 2.81	\$ 2.33
Dividend declared per share	\$ 0.250	\$ 0.215	\$ 0.750	\$ 0.645
Financial position				
Total assets	\$ 31,673	\$ 27,797	\$ 31,673	\$ 27,797
Total long-term liabilities	\$ 15,723	\$ 13,243	\$ 15,723	\$ 13,243
Statistical operating data and productivity measures (3)				
Employees (average for the period)	24,915	23,756	24,412	23,706
Gross ton miles (GTM) per average number of employees (thousands)	4,630	4,223	13,644	12,578
GTMs per US gallon of fuel consumed	1,067	1,036	1,018	987

- (1) The figures for the nine months ended September 30, 2014 include a gain on disposal of the Deux-Montagnes subdivision of \$80 million, or \$72 million after-tax (\$0.09 per basic or diluted share).
- (2) The figures for the three and nine months ended September 30, 2013 include an income tax expense of \$19 million (\$0.02 per basic or diluted share) resulting from the enactment of higher provincial corporate income tax rates. The figures for the nine months ended September 30, 2013 also include a gain on exchange of perpetual railroad operating easements on specific rail lines of \$29 million, or \$18 million after-tax (\$0.02 per basic or diluted share); an income tax expense of \$5 million (\$0.01 per basic or diluted share) resulting from the enactment of higher provincial corporate tax rates; and a gain on disposal of a segment of the Oakville subdivision of \$40 million, or \$36 million after-tax (\$0.04 per basic or diluted share).
- (3) Based on estimated data available at such time and subject to change as more complete information becomes available.

Canadian National Railway Company

33

Management's Discussion and Analysis

Financial results

Third quarter and first nine months of 2014 compared to corresponding periods in 2013

Third quarter 2014 net income was \$853 million, an increase of \$148 million, or 21%, when compared to the same period in 2013, with diluted earnings per share rising 24% to \$1.04. Net income for the nine months ended September 30, 2014 was \$2,323 million, an increase of \$346 million, or 18%, when compared to the same period in 2013, with diluted earnings per share rising 21% to \$2.81.

Included in the results for the nine months ended September 30, 2014 was a gain on disposal of the Deux-Montagnes subdivision between Saint-Eustache and Montreal, Quebec, including the Mont-Royal tunnel, together with the rail fixtures (collectively the "Deux-Montagnes"), of \$80 million, or \$72 million after-tax (\$0.09 per diluted share). Included in the results for the three and nine months ended September 30, 2013 was an income tax expense of \$19 million (\$0.02 per diluted share) resulting from the enactment of higher provincial corporate income tax rates. Also included in the results for the nine months ended September 30, 2013 was a gain on exchange of perpetual railroad operating easements, including the track and roadway assets on specific rail lines (collectively the "exchange of easements"), of \$29 million, or \$18 million after-tax (\$0.02 per diluted share); an income tax expense of \$5 million (\$0.01 per diluted share) resulting from the enactment of higher provincial corporate income tax rates; and a gain on disposal of a segment of the Oakville subdivision, together with the rail fixtures and certain passenger agreements (collectively the "Lakeshore West"), of \$40 million, or \$36 million after-tax (\$0.04 per diluted share).

Foreign exchange fluctuations have an impact on the comparability of the results of operations. The fluctuation of the Canadian dollar relative to the US dollar, which affects the conversion of the Company's US dollar-denominated revenues and expenses, resulted in a positive impact to net income for the third quarter and first nine months of 2014 of \$18 million (\$0.02 per diluted share) and \$70 million (\$0.08 per diluted share), respectively.

Revenues for the quarter ended September 30, 2014 totaled \$3,118 million compared to \$2,698 million in the same period in 2013, an increase of \$420 million, or 16%. Revenues for the first nine months of 2014 were \$8,927 million, an increase of \$1,097 million, or 14%, when compared to the same period in 2013. The increases were mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets, particularly crude oil and frac sand, new intermodal business including temporary diversions from U.S. west coast ports, as well as new automotive business; the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and freight rate increases. Fuel surcharge revenues increased by \$34 million in the third quarter and \$80 million in the first nine months of 2014 when compared to the same periods in 2013, primarily due to higher freight volumes.

Operating expenses for the third quarter of 2014 amounted to \$1,832 million compared to \$1,614 million in the same quarter of 2013. Operating expenses for the first nine months of 2014 were \$5,563 million compared to \$4,924 million in the same period of 2013. The increase of \$218 million, or 14%, in the third quarter of 2014 was mainly attributable to increased purchased services and material expense, increased labor and fringe benefits expense, the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses, and higher fuel costs. The increase of \$639 million, or 13%, in the first nine months of 2014 was mainly attributable to the negative translation impact of a weaker Canadian dollar on US dollar-denominated expenses, increased purchased services and material expense, higher fuel costs, as well as increased labor and fringe benefits expense.

The operating ratio, defined as operating expenses as a percentage of revenues, was 58.8% in the third quarter of 2014, compared to 59.8% in the third quarter of 2013, a 1.0-point improvement. The nine-month operating ratio was 62.3% in 2014, compared to 62.9% in 2013, a 0.6-point improvement.

Canadian National Railway Company
34

Management's Discussion and Analysis

Revenues

In millions, unless otherwise indicated	Three months ended September 30				Nine months ended September 30			
	2014	2013	% Change	% constant at currency	2014	2013	% Change	% constant at currency
Rail freight revenues	\$ 2,920	\$ 2,519	16 %	13 %	\$ 8,440	\$ 7,367	15 %	10 %
Other revenues	198	179	11 %	7 %	487	463	5 %	1 %
Total revenues	\$ 3,118	\$ 2,698	16 %	13 %	\$ 8,927	\$ 7,830	14 %	10 %
Rail freight revenues								
Petroleum and chemicals	\$ 594	\$ 489	21 %	18 %	\$ 1,726	\$ 1,431	21 %	15 %
Metals and minerals	388	332	17 %	13 %	1,066	929	15 %	9 %
Forest products	393	365	8 %	4 %	1,125	1,064	6 %	1 %
Coal	185	191	(3 %)	(6 %)	568	553	3 %	(1 %)
Grain and fertilizers	469	363	29 %	26 %	1,426	1,162	23 %	19 %
Intermodal	731	642	14 %	12 %	2,068	1,808	14 %	12 %
Automotive	160	137	17 %	13 %	461	420	10 %	5 %
Total rail freight revenues	\$ 2,920	\$ 2,519	16 %	13 %	\$ 8,440	\$ 7,367	15 %	10 %
Revenue ton miles (RTM) (millions)	58,946	52,188	13 %	13 %	172,361	155,466	11 %	11 %
Rail freight revenue/RTM (cents)	4.95	4.83	2 %	-	4.90	4.74	3 %	-

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

Revenues for the quarter ended September 30, 2014 totaled \$3,118 million compared to \$2,698 million in the same period in 2013, an increase of \$420 million, or 16%. Revenues for the first nine months of 2014 were \$8,927 million, an increase of \$1,097 million, or 14%, when compared to the same period in 2013. The increases were mainly attributable to higher freight volumes due to a record Canadian grain crop, strong energy markets, particularly crude oil and frac sand, new intermodal business including temporary diversions from U.S. west coast ports, as well as new automotive business; the positive translation impact of the weaker Canadian dollar on US dollar-denominated revenues; and freight rate increases. Fuel surcharge revenues increased by \$34 million in the third quarter and \$80 million in the first nine months of 2014 when compared to the same periods in 2013, primarily due to higher freight

volumes.

Revenue ton miles (RTM), measuring the relative weight and distance of rail freight transported by the Company, increased by 13% in the third quarter and 11% in the first nine months of 2014 when compared to the same periods in 2013. Rail freight revenue per revenue ton mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased by 2% in the third quarter and 3% in the first nine months of 2014, when compared to the same periods in 2013, driven by the positive translation impact of the weaker Canadian dollar and freight rate increases, partly offset by an increase in the average length of haul.

Canadian National Railway Company

35

Management's Discussion and Analysis

Petroleum and chemicals

	Three months ended September 30					Nine months ended September 30				
	2014	2013	Change	% constant currency	%	2014	2013	Change	% constant currency	%
Revenues (millions)	\$ 594	\$ 489	21	%	18	\$ 1,726	\$ 1,431	21	%	15
RTMs (millions)	13,576	11,033	23	%	23	39,234	32,428	21	%	21
Revenue/RTM (cents)	4.38	4.43	(1	%)	(4	4.40	4.41	-		(5

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

Revenues for this commodity group increased by \$105 million, or 21%, in the third quarter and \$295 million, or 21%, in the first nine months of 2014 when compared to the same periods in 2013. The increases in both the third quarter and first nine months of 2014 were mainly due to higher crude oil and natural gas liquid shipments, the positive translation impact of a weaker Canadian dollar, freight rate increases, and a higher fuel surcharge due to higher volumes. These factors were partly offset by lower volumes of chlorine in the third quarter and sulfur in the first half of 2014. Revenue per revenue ton mile decreased by 1% in the third quarter and remained flat in the first nine months of 2014, when compared to the same periods in 2013, mainly due to a significant increase in the average length of haul, offset by the positive translation impact of a weaker Canadian dollar and freight rate increases.

Metals and minerals

	Three months ended September 30					Nine months ended September 30				
	2014	2013	Change	% constant currency	%	2014	2013	Change	% constant currency	%
Revenues (millions)	\$ 388	\$ 332	17	%						