

CANADIAN NATIONAL RAILWAY CO
Form 6-K
February 03, 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 February 2014

Commission File Number: 001-02413

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

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

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

Form 20-F Form 40-F

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

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

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

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. Management's Report on Internal Control over Financial Reporting
 2. Reports of Independent Registered Public Accounting Firm
 3. Financial Statements and Notes thereto (U.S. GAAP)
 4. Management's Discussion and Analysis (U.S. GAAP)
 5. Certificate of CEO Regarding Facts and Circumstances Relating to Exchange Act Filings
 6. Certificate of CFO Regarding Facts and Circumstances Relating to Exchange Act Filings
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Management's Report on Internal Control over Financial Reporting

Item 1

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (1992). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2013.

KPMG LLP, an independent registered public accounting firm, has issued an unqualified audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 and has also expressed an unqualified audit opinion on the Company's 2013 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 3, 2014.

(s) Claude Mongeau
President and Chief Executive Officer

February 3, 2014

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

February 3, 2014

Report of Independent Registered Public Accounting Firm

Item 2

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

We have audited the accompanying consolidated balance sheets of the Canadian National Railway Company (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2013 and 2012, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 3, 2014 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

(s) KPMG LLP*

Montreal, Canada
February 3, 2014

* FCPA auditor, FCA, public
accountancy permit No.
A106087

KPMG LLP is a Canadian limited liability partnership and a member firm of the
KPMG network of independent member firms affiliated with KPMG International
Cooperative (“KPMG International”), a Swiss entity.

KPMG Canada provides services to KPMG LLP.

Report of Independent Registered Public Accounting Firm

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

We have audited the Canadian National Railway Company's (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the COSO.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 3, 2014 expressed an unqualified opinion on those consolidated financial statements.

(s) KPMG LLP*

Montreal, Canada

February 3, 2014

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

KPMG Canada provides services to KPMG LLP.

3

Consolidated Statement of
Income

U.S. GAAP

Item 3

In millions, except per share data	Year ended December 31,	2013	2012	2011
Revenues	\$	10,575	\$ 9,920	\$ 9,028
Operating expenses				
Labor and fringe benefits		2,182	1,952	1,812
Purchased services and material		1,351	1,248	1,120
Fuel		1,619	1,524	1,412
Depreciation and amortization		980	924	884
Equipment rents		275	249	228
Casualty and other		295	338	276
Total operating expenses		6,702	6,235	5,732
Operating income		3,873	3,685	3,296
Interest expense		(357)	(342)	(341)
Other income (Note 12)		73	315	401
Income before income taxes		3,589	3,658	3,356
Income tax expense (Note 13)		(977)	(978)	(899)
Net income	\$	2,612	\$ 2,680	\$ 2,457
Earnings per share (Note 15)				
Basic	\$	3.10	\$ 3.08	\$ 2.72
Diluted	\$	3.09	\$ 3.06	\$ 2.70
Weighted-average number of shares (Note 15)				
Basic		843.1	871.1	902.2
Diluted		846.1	875.4	908.9

See accompanying notes to consolidated financial statements.

4

Consolidated Statement of Comprehensive
Income

U.S. GAAP

In millions	Year ended December 31,	2013	2012	2011
Net income	\$	2,612	\$ 2,680	\$ 2,457
Other comprehensive income (loss) (Note 18)				
Foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations		440	(128)	130
Translation of US dollar-denominated long-term debt designated as				
a hedge of the net investment in U.S. subsidiaries		(394)	123	(122)
Pension and other postretirement benefit plans (Note 11):				
Net actuarial gain (loss) arising during the year		1,544	(660)	(1,541)
Prior service cost arising during the year		-	(6)	(28)
Amortization of net actuarial loss included in net periodic benefit cost (income)		226	119	8
Amortization of prior service cost included in net periodic benefit cost (income)		5	7	4
Derivative instruments (Note 17)		-	-	(2)
Other comprehensive income (loss) before income taxes		1,821	(545)	(1,551)
Income tax recovery (expense)		(414)	127	421
Other comprehensive income (loss)		1,407	(418)	(1,130)
Comprehensive income	\$	4,019	\$ 2,262	\$ 1,327

See accompanying notes to consolidated financial statements.

5

Consolidated Balance
Sheet

U.S. GAAP

In millions	December 31,	2013	2012
Assets			
Current assets			
Cash and cash equivalents	\$	214	\$ 155
Restricted cash and cash equivalents (Note 8)		448	521
Accounts receivable (Note 3)		815	831
Material and supplies		274	230
Deferred and receivable income taxes (Note 13)		137	43
Other		89	89
Total current assets		1,977	1,869
Properties (Note 4)		26,227	24,541
Intangible and other assets (Note 5)		1,959	249
Total assets	\$	30,163	\$ 26,659
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other (Note 6)	\$	1,477	\$ 1,626
Current portion of long-term debt (Note 8)		1,021	577
Total current liabilities		2,498	2,203
Deferred income taxes (Note 13)		6,537	5,555
Pension and other postretirement benefits, net of current portion (Note 11)		541	784
Other liabilities and deferred credits (Note 7)		815	776
Long-term debt (Note 8)		6,819	6,323
Shareholders' equity			
Common shares (Note 9)		4,015	4,108
Accumulated other comprehensive loss (Note 18)		(1,850)	(3,257)
Retained earnings		10,788	10,167
Total shareholders' equity		12,953	11,018
Total liabilities and shareholders' equity	\$	30,163	\$ 26,659

On behalf of the Board:

David G. A. McLean

Claude
Mongeau
Director

Director

See accompanying notes to consolidated financial statements.

6

Consolidated Statement of Changes in Shareholders'
Equity

U.S. GAAP

In millions	Issued and outstanding common shares (Note 9)	Common shares	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balances at December 31, 2010	918.7	\$ 4,252	\$ (1,709)	\$ 8,741	\$ 11,284
Net income	-	-	-	2,457	2,457
Stock options exercised and other (Notes 9, 10)	5.3	74	-	-	74
Share repurchase programs (Note 9)	(39.8)	(185)	-	(1,235)	(1,420)
Other comprehensive loss (Note 18)	-	-	(1,130)	-	(1,130)
Dividends (\$0.65 per share)	-	-	-	(585)	(585)
Balances at December 31, 2011	884.2	4,141	(2,839)	9,378	10,680
Net income	-	-	-	2,680	2,680
Stock options exercised and other (Notes 9, 10)	6.4	128	-	-	128
Share repurchase programs (Note 9)	(33.8)	(161)	-	(1,239)	(1,400)
Other comprehensive loss (Note 18)	-	-	(418)	-	(418)
Dividends (\$0.75 per share)	-	-	-	(652)	(652)
Balances at December 31, 2012	856.8	4,108	(3,257)	10,167	11,018
Net income	-	-	-	2,612	2,612
Stock options exercised and other (Notes 9, 10)	1.4	40	-	-	40
Share repurchase programs (Note 9)	(27.6)	(133)	-	(1,267)	(1,400)
Other comprehensive income (Note 18)	-	-	1,407	-	1,407
Dividends (\$0.86 per share)	-	-	-	(724)	(724)
Balances at December 31, 2013	830.6	\$ 4,015	\$ (1,850)	\$ 10,788	\$ 12,953

See accompanying notes to consolidated
financial statements.

7

Consolidated Statement of Cash
Flows

U.S. GAAP

In millions December 31,	Year ended	2013	2012	2011
Operating activities				
Net income		\$ 2,612	\$ 2,680	\$ 2,457
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		980	924	884
Deferred income taxes (Note 13)		331	451	531
Gain on disposal of property (Notes 4, 12)		(69)	(281)	(348)
Changes in operating assets and liabilities:				
Accounts receivable		32	(20)	(51)
Material and supplies		(38)	(30)	11
Accounts payable and other		(245)	129	34
Other current assets		13	(13)	(2)
Pensions and other, net		(68)	(780)	(540)
Net cash provided by operating activities		3,548	3,060	2,976
Investing activities				
Property additions		(1,973)	(1,731)	(1,625)
Disposal of property (Note 4)		52	311	369
Change in restricted cash and cash equivalents		73	(22)	(499)
Other, net		(4)	21	26
Net cash used in investing activities		(1,852)	(1,421)	(1,729)
Financing activities				
Issuance of debt (Note 8)		1,850	493	787
Repayment of debt (Note 8)		(1,413)	(140)	(509)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized (Note 10)		31	117	77
Repurchase of common shares (Note 9)		(1,400)	(1,400)	(1,420)
Dividends paid		(724)	(652)	(585)
Net cash used in financing activities		(1,656)	(1,582)	(1,650)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents				
		19	(3)	14
Net increase (decrease) in cash and cash equivalents		59	54	(389)
Cash and cash equivalents, beginning of year		155	101	490
Cash and cash equivalents, end of year		\$ 214	\$ 155	\$ 101
Supplemental cash flow information				
Net cash receipts from customers and other		\$ 10,640	\$ 9,877	\$ 8,995

Net cash payments for:			
Employee services, suppliers and other expenses	(5,558)	(5,241)	(4,643)
Interest	(344)	(364)	(329)
Personal injury and other claims (Note 16)	(61)	(79)	(97)
Pensions (Note 11)	(239)	(844)	(468)
Income taxes (Note 13)	(890)	(289)	(482)
Net cash provided by operating activities	\$ 3,548	\$ 3,060	\$ 2,976

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

1 – Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to personal injury and other claims, environmental matters, depreciation, pensions and other postretirement benefits, and income taxes, based upon currently available information. Actual results could differ from these estimates.

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, which was paid on November 29, 2013, to shareholders of record on November 15, 2013. All share and per share data presented herein reflect the impact of the stock split.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries. The Company’s investments in which it has significant influence are accounted for using the equity method and all other investments are accounted for using the cost method.

B. Revenues

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

C. Foreign currency

All of the Company’s operations in the United States (U.S.) are self-contained foreign entities with the US dollar as their functional currency. Accordingly, the U.S. operations’ assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (loss) (see Note 18 – Accumulated other comprehensive loss).

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

D. Cash and cash equivalents

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

E. Restricted cash and cash equivalents

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

Notes to Consolidated Financial
Statements

U.S. GAAP

F. Accounts receivable

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

G. Material and supplies

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

H. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. Labor, materials and other costs associated with the installation of rail, ties, ballast and other structures are capitalized to the extent they meet the Company's capitalization criteria. Major overhauls and large refurbishments of equipment are also capitalized when they result in an extension to the service life or increase the functionality of the asset. Repair and maintenance costs are expensed as incurred.

The cost of properties, including those under capital leases, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated service lives, measured in years, except for rail which is measured in millions of gross tons per mile. The Company follows the group method of depreciation whereby a single composite depreciation rate is applied to the gross investment in a class of similar assets, despite small differences in the service life or salvage value of individual property units within the same asset class.

In accordance with the group method of depreciation, upon sale or retirement of properties in the normal course of business, cost less net salvage value is charged to accumulated depreciation. As a result, no gain or loss is recognized in income under the group method as it is assumed that the assets within the group on average have the same life and characteristics and therefore that gains or losses offset over time. For retirements of depreciable properties that do not occur in the normal course of business, a gain or loss may be recognized if the retirement varies significantly from the retirement pattern identified through depreciation studies. A gain or loss is recognized in Other income for the sale of land or disposal of assets that are not part of railroad operations.

Assets held for sale are measured at the lower of their carrying amount or fair value, less cost to sell. Losses resulting from significant rail line sales are recognized in income when the asset meets the criteria for classification as held for sale, whereas losses resulting from significant rail line abandonments are recognized in the Consolidated Statement of Income when the asset ceases to be used. Gains are recognized in income when they are realized.

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

I. Intangible assets

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

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

J. Pensions

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

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

- (i)
- (ii) the interest cost of pension obligations;
- (iii) the expected long-term return on pension fund assets;
- (iv) the amortization of prior service costs and amendments over the expected average remaining service life of the employee group covered by the plans; and
- (v) the amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the beginning of year balances of the projected benefit obligation or market-related value of plan assets, over the expected average remaining service life of the employee group covered by the plans.

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

Notes to Consolidated Financial
Statements

U.S. GAAP

K. Postretirement benefits other than pensions

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

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

L. Personal injury and other claims

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

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

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

M. Environmental expenditures

Environmental expenditures that relate to current operations, or to an existing condition caused by past operations, are expensed unless they can contribute to current or future operations. Environmental liabilities are recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective shares of the liability. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable and collectability is reasonably assured.

N. Income taxes

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

O. Derivative financial instruments

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

P. Stock-based compensation

The Company follows the fair value based approach for stock option awards based on the grant-date fair value using the Black-Scholes option-pricing model. The Company expenses the fair value of its stock option awards on a

straight-line basis, over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter. The Company also follows the fair value based approach for cash settled awards using a lattice-based valuation model. Compensation cost for cash settled awards is based on the fair value of the awards at period-end and is recognized over the period during which an employee is required to provide service (requisite service period) or until retirement eligibility is attained, whichever is shorter. See Note 10 - Stock plans, for the assumptions used to determine fair value and for other required disclosures.

Notes to Consolidated Financial
Statements

U.S. GAAP

2 – Accounting changes

The Company adopts accounting standards that are issued by the Financial Accounting Standards Board (FASB), if applicable. For the years 2013, 2012 and 2011, there were no accounting standard updates issued by FASB that had a significant impact on the Company's consolidated financial statements, except as noted below.

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 added new disclosure requirements to Accounting Standards Codification (ASC) 220, Comprehensive Income, for items reclassified out of accumulated other comprehensive income (AOCI) effective for reporting periods beginning after December 15, 2012. It requires entities to disclose additional information about amounts reclassified out of AOCI by component including changes in AOCI balances and significant items reclassified out of AOCI by the respective line items of net income. The Company has adopted ASU 2013-02 for the reporting period beginning January 1, 2013 and the prescribed disclosures are presented in Note 18 – Accumulated other comprehensive loss to the Company's consolidated financial statements.

3 – Accounts receivable

In millions	December 31,	2013	2012
Freight		\$ 675	\$ 674
Non-freight		147	167
Gross accounts receivable		822	841
Allowance for doubtful accounts		(7)	(10)
Net accounts receivable		\$ 815	\$ 831

4 – Properties

In millions	Depreciation rate	December 31, 2013			December 31, 2012		
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway (1)	2%	\$ 27,833	\$ 7,103	\$ 20,730	\$ 26,209	\$ 6,948	\$ 19,261
Rolling stock	4%	5,193	1,894	3,299	4,989	1,785	3,204
Buildings	2%	1,392	521	871	1,275	492	783
Information technology (2)	12%	1,000	455	545	976	427	549
Other	6%	1,388	606	782	1,273	529	744
Total properties including capital leases		\$ 36,806	\$ 10,579	\$ 26,227	\$ 34,722	\$ 10,181	\$ 24,541
Capital leases included in properties		\$ 417	\$ 58	\$ 359	\$ 417	\$ 53	\$ 364

Track and roadway (3)						
Rolling stock	982	358	624	1,222	353	869
Buildings	109	21	88	109	18	91
Other	102	22	80	91	17	74
Total capital leases included in properties	\$ 1,610	\$ 459	\$ 1,151	\$ 1,839	\$ 441	\$ 1,398

- (1) Includes the cost of land of \$1,911 million and \$1,766 million as at December 31, 2013 and December 31, 2012, respectively.
- (2) The Company capitalized \$85 million in 2013 and \$93 million in 2012 of internally developed software costs pursuant to FASB ASC 350-40, "Intangibles – Goodwill and Other, Internal – Use Software."
- (3) Includes \$108 million of right-of-way access in both years.

Notes to Consolidated Financial
Statements

U.S. GAAP

Accounting policy for capitalization of costs

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

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

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

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

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

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

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

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

Accounting policy for depreciation

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

Notes to Consolidated Financial
Statements

U.S. GAAP

For all depreciable assets, the depreciation rate is based on the estimated service lives of the assets. Assessing the reasonableness of the estimated service lives of properties requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. The Company's U.S. properties are subject to comprehensive depreciation studies as required by the Surface Transportation Board (STB) and are conducted by external experts. Depreciation studies for Canadian properties are not required by regulation and are conducted internally. Studies are performed on specific asset groups on a periodic basis. Changes in the estimated service lives of the assets and their related composite depreciation rates are implemented prospectively. For the rail asset, the estimated service life is measured in millions of gross tons per mile and varies based on rail characteristics such as weight, curvature and metallurgy. The annual composite depreciation rate for rail assets is determined by dividing the estimated annual number of gross tons carried over the rail by the estimated service life of the rail measured in millions of gross tons per mile. For the rail asset, the Company capitalizes the costs of rail grinding which consists of restoring and improving the rail profile and removing irregularities from worn rail to extend the service life. The service life of the rail asset is based on expected future usage of the rail in its existing condition, determined using railroad industry research and testing, less the rail asset's usage to date. The service life of the rail asset is increased incrementally as rail grinding is performed thereon. As such, the costs incurred for rail grinding are capitalized given that the activity extends the service life of the rail asset beyond its original or current condition as additional gross tons can be carried over the rail for its remaining service life. The Company amortizes the cost of rail grinding over the remaining life of the rail asset, which includes the incremental life extension generated by the rail grinding.

Disposal of property
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 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

2012

Bala-Oakville

On March 23, 2012, the Company entered into an agreement with Metrolinx to sell a segment of the Bala and a segment of the Oakville subdivisions in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Bala-Oakville"), for cash proceeds of \$311 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Bala-Oakville at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of \$281 million (\$252 million after-tax) that was recorded in Other income

under the full accrual method of accounting for real estate transactions.

2011

IC RailMarine

On August 1, 2011, the Company sold substantially all of the assets of IC RailMarine Terminal Company (“IC RailMarine”), an indirect subsidiary of the Company, to Raven Energy, LLC, an affiliate of Foresight Energy, LLC (“Foresight”) and the Cline Group (“Cline”), for cash proceeds of \$70 million (US\$73 million) before transaction costs. IC RailMarine is located on the east bank of the Mississippi River and stores and transfers bulk commodities and liquids between rail, ship and barge, serving customers in North American and global markets. Under the sale agreement, the Company will benefit from a 10-year rail transportation agreement with Savatran LLC, an affiliate of Foresight and Cline, to haul a minimum annual volume of coal from four Illinois mines to the IC RailMarine transfer facility. The transaction resulted in a gain on disposal of \$60 million (\$38 million after-tax) that was recorded in Other income.

14

Notes to Consolidated Financial
Statements

U.S. GAAP

Lakeshore East

On March 24, 2011, the Company entered into an agreement with Metrolinx to sell a segment of the Kingston subdivision known as the Lakeshore East in Pickering and Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the “Lakeshore East”), for cash proceeds of \$299 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Lakeshore East 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 \$288 million (\$254 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

5 – Intangible and other assets

In millions	December 31,	2013	2012
Pension asset (Note 11)	\$	1,662	\$ -
Deferred and long-term receivables		109	87
Intangible assets (A)		59	57
Investments (B)		57	30
Other		72	75
Total intangible and other assets	\$	1,959	\$ 249

A. Intangible assets

Intangible assets consist mainly of customer contracts and relationships assumed through past acquisitions.

B. Investments

As at December 31, 2013, the Company had \$46 million (\$20 million as at December 31, 2012) of investments accounted for under the equity method and \$11 million (\$10 million as at December 31, 2012) of investments accounted for under the cost method.

6 – Accounts payable and other

In millions	December 31,	2013	2012
Trade payables		\$ 408	\$ 386
Payroll-related accruals		351	340
Accrued charges		156	135
Accrued interest		125	105
Income and other taxes		96	294
Stock-based incentives liability (Note 10)		80	88
Personal injury and other claims provisions (Note 16)		45	82
Environmental provisions (Note 16)		41	31
Other postretirement benefits liability (Note 11)		18	17
Other		157	148
Total accounts payable and other	\$	1,477	\$ 1,626

7 – Other liabilities and deferred credits

In millions	December 31,	2013	2012
Personal injury and other claims provisions, net of current portion (Note 16)	\$	271	\$ 232
Stock-based incentives liability, net of current portion (Note 10)		240	203
Environmental provisions, net of current portion (Note 16)		78	92
Deferred credits and other		226	249
Total other liabilities and deferred credits	\$	815	\$ 776

Notes to Consolidated Financial
Statements

U.S. GAAP

8 – Long-term debt

In millions		Maturity	Outstanding US dollar- denominated amount	31, 2013	December 2012
Debentures and notes: (A)					
Canadian National series:					
4.40%	10-year notes (B)	Mar. 15, 2013	\$ -	\$ -	\$ 398
4.95%	6-year notes (B)	Jan. 15, 2014	325	346	323
-	2-year floating rate notes (C)	Nov. 6, 2015	350	372	-
5.80%	10-year notes (B)	June 1, 2016	250	266	249
1.45%	5-year notes (B)	Dec. 15, 2016	300	319	298
5.85%	10-year notes (B)	Nov. 15, 2017	250	266	249
5.55%	10-year notes (B)	May 15, 2018	325	346	323
6.80%	20-year notes (B)	July 15, 2018	200	213	199
5.55%	10-year notes (B)	Mar. 1, 2019	550	585	547
2.85%	10-year notes (B)	Dec. 15, 2021	400	425	398
2.25%	10-year notes (B)	Nov. 15, 2022	250	266	249
7.63%	30-year debentures	May 15, 2023	150	159	149
6.90%	30-year notes (B)	July 15, 2028	475	505	473
7.38%	30-year debentures (B)	Oct. 15, 2031	200	213	199
6.25%	30-year notes (B)	Aug. 1, 2034	500	532	498
6.20%	30-year notes (B)	June 1, 2036	450	479	448
Puttable Reset Securities					
6.71%	PURSSM (B)	July 15, 2036	250	266	249
6.38%	30-year debentures (B)	Nov. 15, 2037	300	319	298
3.50%	30-year notes (B)	Nov. 15, 2042	250	266	249
4.50%	30-year notes (B)	Nov. 7, 2043	250	266	-
Illinois Central series:					
5.00%	99-year income debentures	Dec. 1, 2056	7	7	7
7.70%	100-year debentures	Sep. 15, 2096	125	133	124
Total US dollar-denominated debentures and notes			\$ 6,157	6,549	5,927
BC Rail series:					
Non-interest bearing 90-year subordinated notes (D)			July 14, 2094	842	842
Total debentures and notes				7,391	6,769
Other:					
Commercial paper (E) (F)				273	-
Accounts receivable securitization (G)				250	-
Capital lease obligations and other (H)				783	985
Total debt, gross				8,697	7,754
Less:					
Net unamortized discount				857	854

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Total debt (I) (1)	7,840	6,900
Less:		
Current portion of long-term debt (I)	1,021	577
Total long-term debt	\$ 6,819	\$ 6,323
(1)	See Note 17 - Financial instruments, for the fair value of debt.	

Footnotes to the table follow on the next page.

Notes to Consolidated Financial
Statements

U.S. GAAP

- A. The Company's debentures, notes and revolving credit facility are unsecured.
- B. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.
- C. These floating rate notes bear interest at the three-month London Interbank Offered Rate (LIBOR) plus 0.20%. The interest rate as at December 31, 2013 was 0.44%.
- D. The Company records these notes as a discounted debt of \$9 million, using an imputed interest rate of 5.75%. The discount of \$833 million is included in the net unamortized discount.
- E. The Company has an \$800 million revolving credit facility agreement with a consortium of lenders. On March 22, 2013, the agreement was amended to extend the term to May 5, 2018. The agreement 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 credit facility, containing customary terms and conditions, is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the LIBOR, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at December 31, 2013 and December 31, 2012, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the years ended December 31, 2013 and 2012.
- F. 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 December 31, 2013, the Company had total borrowings of \$273 million presented in Current portion of long-term debt on the Consolidated Balance Sheet (nil as at December 31, 2012). The weighted-average interest rate on these borrowings was 1.14%.
The Company presents issuances and repayments of commercial paper in the Consolidated Statement of Cash Flows, all of which have a maturity less than 90 days, on a net basis. The following table presents the gross issuances and repayments of commercial paper:

In millions	2013	2012	2011
Issuances of commercial paper	\$ 3,255	\$ 1,861	\$ 659
Repayments of commercial paper	\$ (2,987)	\$ (1,943)	\$ (575)

The Company has revised the Consolidated Statement of Cash Flows for 2012 and 2011 to present the cash flows from the issuances and repayments of commercial paper on a net basis, consistent with the presentation adopted for 2013. The Company chose to present such cash flows on a net basis since the issuance and repayments of commercial paper are part of the Company's cash management activities and this debt matures in less than 90 days.

- G. On December 20, 2012, the Company entered into a three-year agreement, commencing on February 1, 2013, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million. The trusts are multi-seller trusts and the Company is not the primary beneficiary. Funding for the acquisition of these assets is customarily through the issuance of asset-backed commercial paper notes by the unrelated trusts.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold. The average servicing period is approximately one month. Subject to customary indemnifications, each trust's recourse is limited to the accounts receivable transferred.

The Company is subject to customary reporting requirements for which failure to perform could result in termination of the program. In addition, the program is subject to customary credit rating requirements, which if not met, could also result in termination of the program. The Company monitors the reporting requirements and is currently not aware of any trends, events or conditions that could cause such termination.

The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use. In the event the program is terminated before its scheduled maturity, the Company expects to meet its future payment obligations through its various sources of financing including its revolving credit facility and commercial paper program, and/or access to capital markets.

Notes to Consolidated Financial
Statements

U.S. GAAP

The Company accounts for its accounts receivable securitization program under ASC 860, Transfers and Servicing. Based on the structure of the program, the Company accounts for the proceeds as a secured borrowing. As such, as at December 31, 2013, the Company recorded \$250 million 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 1.18% which is secured by and limited to \$281 million of accounts receivable.

H. During 2013, the Company recorded \$44 million in assets it acquired through equipment leases (\$94 million in 2012), for which an equivalent amount was recorded in debt.

Interest rates for capital lease obligations range from approximately 0.7% to 8.5% with maturity dates in the years 2014 through 2037. The imputed interest on these leases amounted to \$209 million as at December 31, 2013 and \$249 million as at December 31, 2012.

The capital lease obligations are secured by properties with a net carrying amount of \$779 million as at December 31, 2013 and \$1,021 million as at December 31, 2012.

I. Long-term debt maturities, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2013, for the next five years and thereafter, are as follows:

In millions		Capital leases	Debt	Total
2014	(1)	\$ 153	\$ 868	\$ 1,021
2015		83	369	452
2016		287	582	869
2017		143	263	406
2018		7	556	563
2019 and thereafter		109	4,420	4,529
		\$ 782	\$ 7,058	\$ 7,840

(1) Current portion of long-term debt.

J. The aggregate amount of debt payable in US currency as at December 31, 2013 was US\$6,730 million (C\$7,158 million), including US\$573 million relating to capital leases and other; and US\$6,690 million (C\$6,656 million), including US\$733 million relating to capital leases and other, as at December 31, 2012.

K. 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 22, 2013, the expiry date of these agreements was extended by one year to April 28, 2016. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at December 31, 2013, the Company had letters of credit drawn of \$481 million (\$551 million as at December 31, 2012) from a total committed amount of \$503 million (\$562 million as at December 31, 2012) by the various banks. As at December 31, 2013, cash and cash equivalents of \$448 million (\$521 million as at December 31, 2012) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Notes to Consolidated Financial
Statements

U.S. GAAP

9 – Capital stock

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

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

B. Issued and outstanding common shares

Common stock split

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, which was paid on November 29, 2013, to shareholders of record on November 15, 2013. All share and per share data presented herein reflect the impact of the stock split.

The following table provides the activity of the issued and outstanding common shares of the Company for the years ended December 31, 2013, 2012 and 2011:

In millions	Year ended December 31,	2013	2012	2011
Issued and outstanding common shares at beginning of year		856.8	884.2	918.7
Number of shares repurchased through buyback programs		(27.6)	(33.8)	(39.8)
Stock options exercised		1.4	6.4	5.3
Issued and outstanding common shares at end of year		830.6	856.8	884.2

Share repurchase programs

On October 22, 2012, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to \$1.4 billion in common shares, not to exceed 36.0 million common shares, between October 29, 2012 and October 28, 2013 pursuant to 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 29.4 million common shares for \$1.4 billion under this share repurchase program.

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

The following table provides the information related to the share repurchase programs for the years ended December 31, 2013, 2012 and 2011:

In millions, except per share data	Year ended December 31,	2013	2012	2011
Number of common shares (1)		27.6	33.8	39.8
Weighted-average price per share (2)		\$ 50.65	\$ 41.36	\$ 35.67
Amount of repurchase (1)		\$ 1,400	\$ 1,400	\$ 1,420

Includes common shares purchased in the first and fourth quarters of 2013, 2012 and 2011 pursuant to private agreements between the Company and arm's-length third-party sellers.

(2)

Includes brokerage fees.

19

Notes to Consolidated Financial
Statements

U.S. GAAP

10 – Stock plans

The Company has various stock-based incentive plans for eligible employees. All share and per share data for such plans reflect the impact of the stock split (see Note 9 – Capital stock). A description of the Company's major plans is provided below:

A. Employee Share Investment Plan

The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 10% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employees' behalf, a further 35% of the amount invested by the employees, up to 6% of their gross salaries.

The following table provides the number of participants holding shares, the total number of ESIP shares purchased on behalf of employees, including the Company's contributions, as well as the resulting expense recorded for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31,	2013	2012	2011
Number of participants holding shares		18,488	17,423	16,218
Total number of ESIP shares purchased on behalf of employees (millions)		2.3	2.5	2.6
Expense for Company contribution (millions)		\$ 30	\$ 24	\$ 21

B. Stock-based compensation plans

The following table provides the total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the years ended December 31, 2013, 2012 and 2011:

In millions	Year ended December 31,	2013	2012	2011
Cash settled awards				
Share Unit Plan		\$ 92	\$ 76	\$ 81
Voluntary Incentive Deferral Plan		35	19	21
		127	95	102
Stock option awards		9	10	10
Total stock-based compensation expense		\$ 136	\$ 105	\$ 112
Tax benefit recognized in income		\$ 35	\$ 25	\$ 24
(i) Cash settled awards				

Share Unit Plan

In 2013, the Company granted 0.8 million performance share units (PSUs), previously known as restricted share units (RSUs), (0.9 million in both 2012 and 2011) 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 (ROIC) over the plan period. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 150% depending on the level of ROIC attained.

Payout is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for senior and executive management employees (“executive employees”), payout for PSUs is also conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation and non-disclosure of confidential information conditions. Current or former executive employees who breach such conditions of their benefit plans, award or employment agreements will forfeit the PSU payout. Should the Company reasonably determine that a current or former executive employee may have violated the conditions of their benefit plans, award or employment agreement, the Company may at its discretion change the manner of vesting of the PSUs to suspend payout on any PSUs pending resolution of such matter.

The value of the payout is equal to the number of PSUs awarded multiplied by the performance vesting factor and by the 20-day average closing share price ending on January 31 of the following year. On December 31, 2013, for the 2011 grant, the level of ROIC attained resulted in a performance vesting factor of 150%. As the minimum share price condition was met, payout under the plan of approximately \$80 million, calculated using the Company’s average share price during the 20-day period ending on January 31, 2014, will be paid to employees meeting the conditions of their benefit plans, award or employment agreements in the first quarter of 2014.

Notes to Consolidated Financial
Statements

U.S. GAAP

In February 2012, the Company's Board of Directors unanimously voted to forfeit and cancel the PSU payout of approximately \$18 million otherwise due in February 2012 to its former Chief Executive Officer (CEO) after determining that the former CEO was likely in breach of his non-compete and non-disclosure of confidential information conditions contained in the former CEO's employment agreement. On February 4, 2013, the Company's Executive Vice-President and Chief Operating Officer (COO) resigned to join the Company's major competitor in Canada. As a result of the COO's resignation, compensation amounts subject to non-compete, non-solicitation and other applicable terms of his long-term incentive award agreements and related plans, and certain amounts accumulated under non-registered pension plans and arrangements were forfeited. In February 2013, the Company entered into confidential agreements to settle these matters. As a result, in the quarter ended March 31, 2013, the stock-based compensation liability was reduced by approximately \$20 million.

Voluntary Incentive Deferral Plan

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

The following table provides the 2013 activity for all cash settled awards:

In millions	PSUs		VIDP	
	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2012	1.9	1.4 (1)	-	2.8
Granted (Payout)	0.8	(0.9)	-	(0.6)
Transferred into plan	-	-	-	0.1
Forfeited/Settled	(0.1)	(0.5) (1)	-	-
Vested during year	(0.9)	0.9	-	-
Outstanding at December 31, 2013	1.7	0.9	-	2.3

(1) The balance outstanding at December 31, 2012 included the units of the PSU payout otherwise due to the Company's former CEO that were in dispute which were settled in the first quarter of 2013.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

In millions, unless otherwise indicated	PSUs (1)					VIDP (2)	Total
	2013	2012	2011	2010	2009		
Year of grant	2013	2012	2011	2010	2009		
Stock-based compensation expense (recovery)							
recognized over requisite service period							
Year ended December 31, 2013 (3)	\$ 34	\$ 37	\$ 34	\$ (4)	\$ (9)	\$35	\$27
Year ended December 31, 2012	N/A	\$ 24	\$ 26	\$ 26	\$ -	\$19	\$95
Year ended December 31, 2011	N/A	N/A	\$ 19	\$ 27	\$ 35	\$21	\$02
Liability outstanding							
December 31, 2013	\$ 34	\$ 61	\$ 80	\$ -	\$ -	\$145	\$320
December 31, 2012	N/A	\$ 24	\$ 45	\$ 70	\$ 18	\$134	\$291
Fair value per unit							
December 31, 2013 (\$)	\$ 55.12	\$ 59.66	\$ 60.56	N/A	N/A	\$56	N/A
Fair value of awards vested during the year							
Year ended December 31, 2013	\$ -	\$ -	\$ 80	N/A	N/A	\$ 1	\$81
Year ended December 31, 2012	N/A	\$ -	\$ -	\$ 70	N/A	\$ 1	\$71
Year ended December 31, 2011	N/A	N/A	\$ -	\$ -	\$ 82	\$ 1	\$83
Nonvested awards at December 31, 2013							
Unrecognized compensation cost	\$ 26	\$ 15	\$ -	N/A	N/A	\$ 1	\$42
Remaining recognition period (years)	2.0	1.0	N/A	N/A	N/A	N/A (4)	N/A
Assumptions (5)							
Stock price (\$)	\$0.56	\$60.56	\$0.56	N/A	N/A	\$56	N/A
Expected stock price volatility (6)	14%	14%	N/A	N/A	N/A	N/A	N/A
Expected term (years) (7)	2.0	1.0	N/A	N/A	N/A	N/A	N/A
Risk-free interest rate (8)	1.13%	0.99%	N/A	N/A	N/A	N/A	N/A
Dividend rate (\$ (9)	\$0.86	\$ 0.86	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 stock-based compensation expense related to the forfeiture of PSUs by the Company's former CEO and COO.
- (4) The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units.
- (5) Assumptions used to determine fair value are at December 31, 2013.
- (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.

(ii) Stock option awards

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options issued by the Company are conventional options that vest over a period of time. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant and expire after 10 years. At December 31, 2013, 20.2 million common shares remained authorized for future issuances under these plans.

For 2013, 2012 and 2011, the Company granted 1.1 million, 1.2 million and 1.3 million, respectively, of conventional stock options to designated senior management employees that vest over a period of four years of continuous employment.

The total number of conventional options outstanding at December 31, 2013 was 7.7 million.

Notes to Consolidated Financial
Statements

U.S. GAAP

The following table provides the activity of stock option awards during 2013, and for options outstanding and exercisable at December 31, 2013, the weighted-average exercise price:

	Options outstanding		Nonvested options	
	Number of options In millions	Weighted- average exercise price	Number of options In millions	Weighted- average grant date fair value
Outstanding at December 31, 2012 (1)	8.5	\$ 26.05	3.4	\$ 7.28
Granted	1.1	\$ 47.47	1.1	\$ 8.52
Forfeited	(0.5)	\$ 36.06	(0.2)	\$ 7.93
Exercised	(1.4)	\$ 19.54	N/A	N/A
Vested	N/A	N/A	(1.6)	\$ 6.95
Outstanding at December 31, 2013 (1)	7.7	\$ 30.97	2.7	\$ 7.89
Exercisable at December 31, 2013 (1)	5.0	\$ 25.58	N/A	N/A

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

The following table provides the number of stock options outstanding and exercisable as at December 31, 2013 by range of exercise price and their related intrinsic value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on December 31, 2013 at the Company's closing stock price of \$60.56.

Range of exercise prices	Options outstanding				Options exercisable			
	Number of options In millions	Weighted-average years to expiration	Weighted-average exercise price	Aggregate intrinsic value In millions	Number of options In millions	Weighted-average exercise price	Aggregate intrinsic value In millions	
\$ 15.52 - \$ 18.17	0.9	2.8	\$ 17.47	\$ 40	0.9	\$ 17.47	\$ 40	
\$ 18.18 - \$ 23.76	0.8	4.5	\$ 21.96	31	0.8	\$ 21.96	31	
\$ 23.77 - \$ 30.79	2.8	4.4	\$ 26.18	95	2.4	\$ 26.03	84	
\$ 30.80 - \$ 40.61	2.2	7.6	\$ 37.79	50	0.8	\$ 37.19	19	
\$ 40.62 - \$ 53.34	1.0	9.1	\$ 49.13	11	0.1	\$ 42.25	-	
Balance at December 31, 2013 (1)	7.7	5.7	\$ 30.97	\$ 227	5.0	\$ 25.58	\$ 174	

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. As at December 31, 2013, all stock options outstanding were in-the-money. The weighted-average years to expiration of exercisable stock options was 4.5 years.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

In millions, unless
otherwise indicated

Year of grant	2013	2012	2011	2010	2009	2008	2007	Total
Stock-based compensation expense								
recognized over requisite service period (1)								
Year ended								
December 31, 2013	\$ 5	\$ 2	\$ 1	\$ 1	\$ -	N/A	N/A	\$ 9
Year ended								
December 31, 2012	N/A	\$ 4	\$ 2	\$ 2	\$ 2	\$ -	N/A	\$ 10
Year ended								
December 31, 2011	N/A	N/A	\$ 5	\$ 2	\$ 2	\$ 1	\$ -	\$ 10
Fair value per unit								
At grant date (\$)	\$ 8.52	\$ 7.74	\$ 7.83	\$ 6.55	\$ 6.30	\$ 6.22	\$ 6.68	N/A
Fair value of awards vested during the year								
Year ended								
December 31, 2013	\$ -	\$ 2	\$ 3	\$ 2	\$ 4	N/A	N/A	\$ 11
Year ended								
December 31, 2012	N/A	\$ -	\$ 2	\$ 2	\$ 4	\$ 3	N/A	\$ 11
Year ended								
December 31, 2011	N/A	N/A	\$ -	\$ 2	\$ 4	\$ 3	\$ 3	\$ 12
Nonvested awards at December 31, 2013								
Unrecognized compensation cost								
Remaining recognition period (years)	\$ 3	\$ 2	\$ 1	\$ -	\$ -	N/A	N/A	\$ 6
	3.0	2.0	1.0	-	-	N/A	N/A	N/A
Assumptions								
Grant price (\$)	\$ 47.47	\$ 38.35	\$ 34.47	\$ 27.38	\$ 21.07	\$ 24.25	\$ 26.40	N/A
Expected stock price volatility (2)	23%	26%	26%	28%	39%	27%	24%	N/A
Expected term (years) (3)	5.4	5.4	5.3	5.4	5.3	5.3	5.2	N/A
Risk-free interest rate (4)	1.41%	1.33%	2.53%	2.44%	1.97%	3.58%	4.12%	N/A
Dividend rate (\$) (5)	\$ 0.86	\$ 0.75	\$ 0.65	\$ 0.54	\$ 0.51	\$ 0.46	\$ 0.42	N/A

- (1) Compensation cost is based on the grant date fair value using the Black-Scholes option-pricing model that uses the assumptions at the grant date.
- (2) Based on the average of the historical volatility of the Company's stock over a period commensurate with the expected term of the award and the implied volatility from traded options on the Company's stock.
- (3) Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.
- (4) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
- (5) Based on the annualized dividend rate.

The following table provides information related to stock options exercised for the years ended December 31, 2013, 2012 and 2011:

In millions	Year ended December 31,	2013	2012	2011
Total intrinsic value		\$ 45	\$ 167	\$ 122
Cash received upon exercise of options		\$ 28	\$ 101	\$ 68
Related excess tax benefit realized		\$ 3	\$ 16	\$ 9

(iii) Stock price volatility

Compensation cost for the Company's Share Unit Plan is based on the fair value of the awards at period end using the lattice-based valuation model for which a primary assumption is the Company's share price. In addition, the Company's liability for the VIDP is marked-to-market at period-end and, as such, is also reliant on the Company's share price. Fluctuations in the Company's share price cause volatility to stock-based compensation expense as recorded in net income. The Company does not currently hold any derivative financial instruments to manage this exposure. A \$1 increase in the Company's share price at December 31, 2013 would have increased stock-based compensation expense by \$6 million, whereas a \$1 decrease in the price would have reduced it by \$5 million.

11 – Pensions and other postretirement benefits

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

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

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

A. Description of the CN Pension Plan

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

B. Funding policy

Employee contributions to the CN Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, including amendments and regulations thereto, and are determined by actuarial valuations. Actuarial valuations are generally required on an annual basis for all Canadian plans, or when deemed appropriate by the Office of the Superintendent of Financial Institutions (OSFI). These actuarial valuations are prepared in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. The Company's most recently filed actuarial valuations conducted as at December 31, 2012 indicated a funding excess

on a going-concern basis of approximately \$1.4 billion and a funding deficit on a solvency basis of approximately \$2.1 billion calculated using the three-year average of the Company's hypothetical wind-up ratio in accordance with the Pension Benefit Standards Regulations, 1985. The Company's next actuarial valuations required as at December 31, 2013 will be performed in 2014. These actuarial valuations are expected to identify a going-concern surplus of approximately \$1.7 billion, while on a solvency basis a funding deficit of approximately \$1.7 billion is expected due to the level of interest rates applicable at their respective measurement dates. The federal pension legislation requires funding deficits, as calculated under current pension regulations, to be paid over a number of years. Actuarial valuations are also required annually for the Company's U.S. pension plans.

Notes to Consolidated Financial
Statements

U.S. GAAP

In 2013, in anticipation of its future funding requirements, the Company made voluntary contributions of \$100 million in excess of the required contributions mainly to strengthen the financial position of its main pension plan, the CN Pension Plan. These voluntary contributions can be treated as a prepayment against its future required special solvency deficit payments. As at December 31, 2013, the Company had \$470 million of accumulated prepayments which remain available to offset future required solvency deficit payments. The Company expects to use approximately \$335 million of these prepayments to satisfy its 2014 required solvency deficit payment. As a result, the Company's cash contributions for 2014 are expected to be \$130 million, for all the Company's pension plans. As at February 3, 2014, the Company contributed \$89 million to its defined benefit pension plans for 2014.

C. Plan assets

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

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

The Company's 2013 target long-term asset mix and actual asset allocation for the Company's pension plans based on fair value, are as follows:

Asset allocation	Target long-term asset mix	Percentage of plan assets	
		2013	2012
Cash and short-term investments	3%	5%	4%
Bonds and mortgages	37%	25%	28%
Equities	45%	41%	41%
Real estate	4%	2%	2%
Oil and gas	7%	8%	8%
Infrastructure	4%	5%	4%
Absolute return	-	10%	9%
Risk-based allocation	-	4%	4%
Total	100%	100%	100%

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

- (i) Cash and short-term investments consist primarily of highly liquid investments which ensure adequate cash flows are available to cover near-term benefit payments. Short-term investments are mainly obligations issued by Canadian chartered banks.
- (ii) Bonds include bond instruments, issued or guaranteed by governments and corporate entities, as well as corporate notes. As at December 31, 2013, 91% of bonds were issued or guaranteed by Canadian, U.S. or other

governments. Mortgages consist of mortgage products which are primarily conventional or participating loans secured by commercial properties.

- (iii) Equity investments are primarily publicly traded securities, well diversified by country, issuer and industry sector. In 2013, the most significant allocation to an individual issuer was approximately 2% and the most significant allocation to an industry sector was approximately 25%.
- (iv) Real estate is a diversified portfolio of Canadian land and commercial properties held by the Trusts' wholly-owned subsidiaries.
- (v) Oil and gas investments include petroleum and natural gas properties operated by the Trusts' wholly-owned subsidiaries and listed and non-listed Canadian securities of oil and gas companies.
- (vi) Infrastructure investments include participations in private infrastructure funds, public and private debt and publicly traded equity securities of infrastructure and utility companies. Some of these investments are held by the Trusts' wholly-owned subsidiaries.

Notes to Consolidated Financial
Statements

U.S. GAAP

- (vii) Absolute return investments are a portfolio of units of externally managed hedge funds, which are invested in various long/short strategies within fixed income, commodities, equities, global macro and multi-strategy funds, as presented in the table of fair value measurement. External managers are monitored on a continuous basis through investment and operational due diligence.
- (viii) Risk-based allocation is a portfolio of externally managed funds where each asset class contributes equally to the overall risk of the portfolio in order to capture over time different asset classes risk premiums. Some of these investments are held by the Trusts' wholly-owned subsidiaries.

The plans' Investment Manager monitors market events and exposures to markets, currencies and interest rates daily. When investing in foreign securities, the plans are exposed to foreign currency risk that may be adjusted or hedged; the effect of which is included in the valuation of the foreign securities. Net of the effects mentioned above, the plans were 66% exposed to the Canadian dollar, 14% to the US dollar, 8% to European currencies, and 12% to various other currencies as at December 31, 2013. Interest rate risk represents the risk that the fair value of the investments will fluctuate due to changes in market interest rates. Sensitivity to interest rates is a function of the timing and amount of cash flows of the assets and liabilities of the plans. To manage credit risk, established policies require dealing with counterparties considered to be of high credit quality. Derivatives are used from time to time to adjust asset mix or exposures to foreign currencies, interest rate or market risks of the portfolio or anticipated transactions. Derivatives are contractual agreements whose value is derived from interest rates, foreign exchange rates, and equity or commodity prices. They include forwards, futures, options and swaps and are included in investment categories based on their underlying exposure. When derivatives are used for hedging purposes, the gains or losses on the derivatives are offset by a corresponding change in the value of the hedged assets.

Notes to Consolidated Financial
Statements

U.S. GAAP

The following tables present the fair value of plan assets as at December 31, 2013 and 2012 by asset class, their level within the fair value hierarchy and the valuation techniques and inputs used to measure such fair value:

In millions Asset class	Total	Fair value measurements at December 31, 2013		
		Level 1	Level 2	Level 3
Cash and short-term investments (1)	\$ 897	\$ 16	\$ 881	\$ -
Bonds (2)				
Canada, U.S. and supranational	1,416	-	1,416	-
Provinces of Canada and municipalities	2,297	-	2,297	-
Corporate	111	-	111	-
Emerging market debt	261	-	261	-
Mortgages (3)	166	-	166	-
Equities (4)				
Canadian	2,160	2,138	-	22
U.S.	1,307	1,307	-	-
International	3,421	3,421	-	-
Real estate (5)	299	-	-	299
Oil and gas (6)	1,380	379	40	961
Infrastructure (7)	788	10	115	663
Absolute return funds (8)				
Multi-strategy	460	-	460	-
Fixed income	519	-	486	33
Equity	391	2	389	-
Global macro	328	-	328	-
Risk-based allocation (9)	607	-	607	-
	\$ 16,808	\$ 7,273	\$ 7,557	\$ 1,978
Other (10)	61			
Total plan assets	\$ 16,869			

In millions Asset class	Total	Fair value measurements at December 31, 2012		
		Level 1	Level 2	Level 3
Cash and short-term investments (1)	\$ 615	\$ 13	\$ 602	\$ -
Bonds (2)				
Canada, U.S. and supranational	1,735	-	1,735	-
Provinces of Canada	2,152	-	2,152	-
Corporate	35	-	35	-
Emerging market debt	353	-	353	-
Mortgages (3)	133	-	133	-
Equities (4)				
Canadian	2,220	2,198	-	22
U.S.	1,121	1,121	-	-

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International	3,082	3,082	-	-
Real estate (5)	279	-	-	279
Oil and gas (6)	1,339	370	29	940
Infrastructure (7)	679	8	94	577
Absolute return funds (8)				
Multi-strategy	410	-	410	-
Fixed income	425	-	415	10
Commodity	91	-	91	-
Equity	259	-	259	-
Global macro	296	-	296	-
Risk-based allocation (9)	586	-	586	-
	\$ 15,810	\$ 6,792	\$ 7,190	\$ 1,828
Other (10)	1			
Total plan assets	\$ 15,811			

Level 1: Fair value based on quoted prices in active markets for identical assets.

Level 2: Fair value based on significant observable inputs.

Level 3: Fair value based on significant unobservable inputs.

Footnotes to the table follow on the next page.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

In millions	Fair value measurements based on significant unobservable inputs (Level 3)					Absolute return (8)	Total
	Equities (4)	Real estate (5)	Oil and gas (6)	Infrastructure (7)			
Beginning balance at December 31, 2011	\$ 22	\$ 214	\$ 889	\$ 619	\$ -	\$ 1,744	
Actual return relating to assets still held at the reporting date	2	68	90	(13)	-	147	
Purchases, sales and settlements	(2)	(3)	(39)	(29)	10	(63)	
Balance at December 31, 2012	\$ 22	\$ 279	\$ 940	\$ 577	\$ 10	\$ 1,828	
Actual return relating to assets still held at the reporting date	2	26	72	43	3	146	
Purchases, sales and settlements	(2)	(6)	(51)	43	20	4	
Ending balance at December 31, 2013	\$ 22	\$ 299	\$ 961	\$ 663	\$ 33	\$ 1,978	

- (1) Cash and short-term investments are valued at cost, which approximates fair value, and are categorized as Level 1 for cash and Level 2 for short-term investments.
- (2) Bonds are valued using mid-price bids obtained from independent pricing data suppliers, predominantly TMX Group Inc. When prices are not available from independent sources, the fair value is based on the present value of future cash flows using current market yields for comparable instruments. All bonds are categorized as Level 2.
- (3) Mortgages are secured by real estate. The fair value of \$166 million (\$133 million in 2012) of mortgages categorized as Level 2 is based on the present value of future cash flows using current market yields for comparable instruments.
- (4) The fair value of equity investments categorized as Level 1 is based on quoted prices in active markets. The fair value of equity investments of \$22 million (\$22 million in 2012) categorized as Level 3 represent units in private equity funds which are valued by their independent administrators.
- (5) The fair value of real estate investments of \$299 million (\$279 million in 2012) includes land and buildings classified as Level 3 and is presented net of related mortgage debt of \$41 million (\$48 million in 2012). Land is valued based on the fair value of comparable assets, and buildings are valued based on the present value of estimated future net cash flows or the fair value of comparable assets. Independent valuations of land and

buildings are performed triennially on a rotational basis.

- (6) Oil and gas investments categorized as Level 1 are valued based on quoted prices in active markets. Investments in oil and gas equities traded on a secondary market are valued based on the most recent transaction price and are categorized as Level 2. Investments of \$961 million (\$940 million in 2012) classified as Level 3 consist of operating oil and gas properties and the fair value is based on estimated future net cash flows that are discounted using prevailing market rates for transactions in similar assets. The future net cash flows are based on forecasted oil and gas prices and projected future annual production and costs.
- (7) Infrastructure investments consist of \$10 million (\$8 million in 2012) of publicly traded equity securities of infrastructure companies classified as Level 1, \$115 million (\$94 million in 2012) of public and private debt issued by infrastructure companies classified as Level 2 and \$663 million (\$577 million in 2012) of infrastructure funds that are classified as Level 3 and are valued based on discounted cash flows or earnings multiples. Infrastructure funds cannot be redeemed; distributions will be received from the funds as the underlying investments are liquidated.
- (8) Absolute return investments are valued using the net asset value as reported by the independent fund administrators. All absolute return investments have contractual redemption frequencies, ranging from monthly to annually, and redemption notice periods varying from 5 to 90 days. Absolute return investments that have redemption dates less frequent than every four months or that have restrictions on contractual redemption features at the reporting date are classified as Level 3.
- (9) Risk-based allocation investments are valued using the net asset value as reported by the independent fund administrators and are classified as Level 2. All funds have contractual redemption frequencies ranging from daily to annually, and redemption notice periods varying from 5 to 60 days.
- (10) Other consists of operating assets of \$85 million (\$94 million in 2012) and liabilities of \$24 million (\$93 million in 2012) required to administer the Trusts' investment assets and the plans' benefit and funding activities. Such assets are valued at cost and have not been assigned to a fair value category.

Notes to Consolidated Financial
Statements

U.S. GAAP

D. Additional disclosures

(i) Obligations and funded
status

In millions	Year ended December 31,	Pensions		Other postretirement benefits	
		2013	2012	2013	2012
Change in benefit obligation					
Projected benefit obligation at beginning of year	\$	16,335	\$ 15,548	\$ 277	\$ 284
Amendments		-	-	-	6
Interest cost		658	740	11	13
Actuarial loss (gain)		(747)	812	(22)	(3)
Service cost		155	134	3	4
Curtailement gain		-	-	-	(6)
Plan participants' contributions		56	55	-	-
Foreign currency changes		16	(5)	5	(3)
Benefit payments, settlements and transfers (1)		(963)	(949)	(18)	(18)
Projected benefit obligation at end of year	\$	15,510	\$ 16,335	\$ 256	\$ 277
Component representing future salary increases		(344)	(443)	-	-
Accumulated benefit obligation at end of year	\$	15,166	\$ 15,892	\$ 256	\$ 277
Change in plan assets					
Fair value of plan assets at beginning of year	\$	15,811	\$ 14,719	\$ -	\$ -
Employer contributions		226	833	-	-
Plan participants' contributions		56	55	-	-
Foreign currency changes		10	(2)	-	-
Actual return on plan assets		1,728	1,135	-	-
Benefit payments, settlements and transfers		(962)	(929)	-	-
Fair value of plan assets at end of year	\$	16,869	\$ 15,811	\$ -	\$ -
Funded status (Excess (deficiency) of fair value of plan assets over projected benefit obligation at end of year)					
	\$	1,359	\$ (524)	\$ (256)	\$ (277)

(1) Includes the settlement gain related to the termination of the former CEO's retirement benefit plan in 2012.

Measurement date for all plans is December 31.

The projected benefit obligation and fair value of plan assets for the CN Pension Plan at December 31, 2013 were \$14,458 million and \$16,059 million respectively (\$15,247 million and \$15,042 million, respectively, at December 31, 2012).

(ii) Amounts recognized in the Consolidated
Balance Sheet

Pensions	Other postretirement benefits
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In millions	December 31,	2013	2012	2013	2012
Noncurrent assets (Note 5)	\$	1,662	\$ -	\$ -	\$ -
Current liabilities (Note 6)		-	-	(18)	(17)
Noncurrent liabilities		(303)	(524)	(238)	(260)
Total amount recognized	\$	1,359	\$ (524)	\$ (256)	\$ (277)

(iii) Amounts recognized in Accumulated other comprehensive loss (Note 18)

In millions	December 31,	Pensions		Other postretirement benefits	
		2013	2012	2013	2012
Net actuarial gain (loss)	\$	(1,515)	\$ (3,264)	\$ 27	\$ 6
Prior service cost	\$	(22)	\$ (26)	\$ (5)	\$ (6)

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

In millions	December 31,	Pensions		Other postretirement benefits	
		2013	2012	2013	2012
Projected benefit obligation	\$	527	\$ 526	N/A	N/A
Accumulated benefit obligation	\$	475	\$ 461	N/A	N/A
Fair value of plan assets	\$	224	\$ 201	N/A	N/A

Notes to Consolidated Financial
Statements

U.S. GAAP

(v) Components of net periodic
benefit cost (income)

In millions	Year ended December 31,	Pensions			Other postretirement benefits		
		2013	2012	2011	2013	2012	2011
Service cost		\$ 155	\$ 134	\$ 124	\$ 3	\$ 4	\$ 4
Interest cost		658	740	788	11	13	14
Curtailement gain		-	-	-	-	(6)	(1)
Settlement loss (gain) (1)		4	(12)	3	-	-	-
Expected return on plan assets		(958)	(994)	(1,005)	-	-	-
Amortization of prior service cost		4	4	2	1	3	2
Amortization of net actuarial loss (gain)		227	119	8	(1)	-	-
Net periodic benefit cost (income)		\$ 90	\$ (9)	\$ (80)	\$ 14	\$ 14	\$ 19

(1) Includes the settlement gain related to the termination of the former CEO's retirement benefit plan in 2012.

The estimated prior service cost and net actuarial loss for defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are \$4 million and \$129 million, respectively.

The estimated prior service cost and net actuarial gain for other postretirement benefits that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are \$2 million and \$4 million, respectively.

(vi) Weighted-average assumptions used in accounting for pensions and other postretirement benefits

	December 31,	Pensions			Other postretirement benefits		
		2013	2012	2011	2013	2012	2011
To determine projected benefit obligation							
Discount rate (1)		4.73%	4.15%	4.84%	4.69%	4.01%	4.70%
Rate of compensation increase							
(2)		3.00%	3.00%	3.25%	3.00%	3.00%	3.25%
To determine net periodic benefit cost							
Discount rate (1)		4.15%	4.84%	5.32%	4.01%	4.70%	5.29%
Rate of compensation increase							
(2)		3.00%	3.25%	3.50%	3.00%	3.25%	3.50%
Expected return on plan assets							
(3)		7.00%	7.25%	7.50%	N/A	N/A	N/A

(1) The Company's discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for pension benefits as they become due. The discount rate is determined by management

with the aid of third-party actuaries. For the Canadian pension and other postretirement benefit plans, future expected benefit payments at each measurement date are discounted using spot rates from a derived AA corporate bond yield curve. The derived curve is based on observed rates for AA corporate bonds with short-term maturities and a projected AA corporate curve for longer term maturities based on spreads between observed AA corporate bonds and AA provincial bonds. The derived curve is expected to generate cash flows that match the estimated future benefit payments of the plans as the bond rate for each maturity year is applied to the plans' corresponding expected benefit payments of that year.

- (2) The rate of compensation increase is determined by the Company based upon its long-term plans for such increases.
- (3) To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers multiple factors. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current asset portfolio mix. Consideration is taken of the historical performance, the premium return generated from an actively managed portfolio, as well as current and future anticipated asset allocations, economic developments, inflation rates and administrative expenses. Based on these factors, the rate is determined by the Company. For 2013, the Company used a long-term rate of return assumption of 7.00% on the market-related value of plan assets to compute net periodic benefit cost. The Company has elected to use a market-related value of assets, whereby realized and unrealized gains/losses and appreciation/depreciation in the value of the investments are recognized over a period of five years, while investment income is recognized immediately. In 2014, the Company will maintain the expected long-term rate of return on plan assets at 7.00% to reflect management's current view of long-term investment returns.

(vii) Health care cost trend rate for other postretirement benefits

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 8% for 2013 and 2014. It is assumed that the rate will decrease gradually to 4.5% in 2028 and remain at that level thereafter.

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

In millions

	One-percentage-point change	
	Increase	Decrease
Effect on total service and interest costs	\$ 1	\$ -
Effect on benefit obligation	\$ 10	\$ (9)

Notes to Consolidated Financial
Statements

U.S. GAAP

(viii) Estimated future benefit payments

In millions	Pensions	Other postretirement benefits
2014	\$ 991	\$ 18
2015	\$ 1,011	\$ 19
2016	\$ 1,033	\$ 19
2017	\$ 1,048	\$ 19
2018	\$ 1,058	\$ 19
Years 2019 to 2023	\$ 5,367	\$ 95

E. Defined contribution and other plans

The Company maintains defined contribution pension plans for certain salaried employees as well as certain employees covered by collective bargaining agreements. The Company also maintains other plans including Section 401(k) savings plans for certain U.S. based employees. The Company's contributions under these plans are expensed as incurred and amounted to \$13 million, \$11 million and \$10 million for 2013, 2012 and 2011, respectively.

F. Contributions to multi-employer plan

Under collective bargaining agreements, the Company participates in a multi-employer benefit plan named the Railroad Employees National Early Retirement Major Medical Benefit Plan which is administered by the National Carriers' Conference Committee (NCCC), and provides certain postretirement health care benefits to certain retirees. The Company's contributions under this plan are expensed as incurred and amounted to \$10 million, \$11 million and \$11 million in 2013, 2012 and 2011, respectively. The annual contribution rate for the plan is determined by the NCCC and for 2013 was \$143.21 per month per active employee (\$154.49 in 2012). The plan covered 867 retirees in 2013 (874 in 2012).

12 – Other income

In millions	Year ended December 31,	2013	2012	2011
Gain on disposals of properties (1)		\$ 64	\$ 295	\$ 348
Gain on disposal of land		19	20	30
Other		(10)	-	23
Total other income		\$ 73	\$ 315	\$ 401

(1) 2013 includes \$29 million and \$40 million for the exchange of easements and the disposal of the Lakeshore West, respectively; 2012 includes \$281 million for the disposal of the Bala-Oakville; and 2011 includes \$60 million and \$288 million for the disposal of substantially all of the assets of IC RailMarine and the Lakeshore East, respectively. See Note 4 - Properties.

Notes to Consolidated Financial
Statements

U.S. GAAP

13 – Income taxes

As at December 31, 2013, Deferred and receivable income taxes include a net deferred income tax asset of \$74 million (\$43 million as at December 31, 2012) and an income tax receivable of \$63 million (nil as at December 31, 2012).

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

In millions	Year ended December 31,	2013	2012	2011
Federal tax rate		15.0%	15.0%	16.5%
Income tax expense at the statutory Federal tax rate		\$ (538)	\$ (549)	\$ (554)
Income tax recovery (expense) resulting from:				
Provincial and foreign taxes		(423)	(425)	(360)
Deferred income tax adjustments due to rate enactments		(24)	(35)	(40)
Gain on disposals		9	44	62
Other (1)		(1)	(13)	(7)
Income tax expense		\$ (977)	\$ (978)	\$ (899)
Cash payments for income taxes		\$ 890	\$ 289	\$ 482
(1)		Comprises of adjustments relating to the resolution of matters pertaining to prior years' income taxes, including net recognized tax benefits, and other items.		

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

In millions	Year ended December 31,	2013	2012	2011
Income before income taxes				
Domestic		\$ 2,445	\$ 2,656	\$ 2,464
Foreign		1,144	1,002	892
		\$ 3,589	\$ 3,658	\$ 3,356
Current income tax expense				
Domestic		\$ (404)	\$ (314)	\$ (340)
Foreign		(242)	(213)	(28)
		\$ (646)	\$ (527)	\$ (368)
Deferred income tax expense				
Domestic		\$ (279)	\$ (370)	\$ (288)

Foreign	(52)	(81)	(243)
	\$ (331)	\$ (451)	\$ (531)

Notes to Consolidated Financial
Statements

U.S. GAAP

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

In millions	December 31,	2013	2012
Deferred income tax assets			
Pension liability	\$	89	\$ 149
Personal injury and legal claims		64	64
Environmental and other reserves		171	130
Other postretirement benefits liability		77	80
Net operating losses and tax credit carryforwards			
(1)		19	4
Total deferred income tax assets		420	427
Deferred income tax liabilities			
Properties		6,232	5,686
Net pension asset		438	-
Other		213	253
Total deferred income tax liabilities		6,883	5,939
Total net deferred income tax liability	\$	6,463	\$ 5,512
Total net deferred income tax liability			
Domestic	\$	2,920	\$ 2,267
Foreign		3,543	3,245
	\$	6,463	\$ 5,512
Total net deferred income tax liability	\$	6,463	\$ 5,512
Net current deferred income tax asset		74	43
Net noncurrent deferred income tax liability	\$	6,537	\$ 5,555

(1) Net operating losses and tax credit carryforwards will expire between the years 2014 and 2033.

On an annual basis, the Company assesses the need to establish a valuation allowance for its deferred income tax assets, and if it is deemed more likely than not that its deferred income tax assets will not be realized, a valuation allowance is recorded. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred income tax liabilities including the available carryback and carryforward periods, projected future taxable income, and tax planning strategies in making this assessment. As at December 31, 2013, in order to fully realize all of the deferred income tax assets, the Company will need to generate future taxable income of approximately \$1.6 billion and, based upon the level of historical taxable income and projections of future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. Management has assessed the impacts of the current economic environment and concluded there are no significant impacts to its assertions for the realization of deferred income tax assets. The Company has not recognized a deferred income tax asset (\$243 million as at December 31, 2013) on the unrealized foreign exchange loss recorded in Accumulated other comprehensive loss relating to its net investment in foreign subsidiaries, as the Company does not expect this temporary difference to reverse in the foreseeable future.

The Company recognized tax credits of nil in 2013, and \$1 million in each of 2012 and 2011 for eligible research and development expenditures, which reduced the cost of properties.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

In millions	Year ended December 31,	2013	2012	2011
Gross unrecognized tax benefits at beginning of year		\$ 36	\$ 46	\$ 57
Increases for:				
Tax positions related to the current year		2	1	1
Tax positions related to prior years		4	3	11
Decreases for:				
Tax positions related to prior years		(4)	-	-
Settlements		(8)	(13)	(21)
Lapse of the applicable statute of limitations		-	(1)	(2)
Gross unrecognized tax benefits at end of year		\$ 30	\$ 36	\$ 46
Adjustments to reflect tax treaties and other arrangements		(5)	(6)	(11)
Net unrecognized tax benefits at end of year		\$ 25	\$ 30	\$ 35

As at December 31, 2013, the total amount of gross unrecognized tax benefits was \$30 million, before considering tax treaties and other arrangements between taxation authorities. The amount of net unrecognized tax benefits as at December 31, 2013 was \$25 million. If recognized, all of the net unrecognized tax benefits as at December 31, 2013 would affect the effective tax rate. The Company believes that it is reasonably possible that approximately \$8 million of the net unrecognized tax benefits as at December 31, 2013 related to various federal, state, and provincial income tax matters, each of which are individually insignificant, may be recognized over the next twelve months as a result of settlements and a lapse of the applicable statute of limitations.

The Company recognizes accrued interest and penalties related to gross unrecognized tax benefits in Income tax expense in the Company's Consolidated Statement of Income. The Company recognized approximately \$2 million, \$3 million and \$4 million in accrued interest and penalties during the years ended December 31, 2013, 2012 and 2011, respectively. The Company had approximately \$5 million and \$9 million of accrued interest and penalties as at December 31, 2013 and 2012, respectively.

In Canada, the Company's federal and provincial income tax returns filed for the years 2007 to 2012 remain subject to examination by the taxation authorities. An examination of the Company's federal income tax returns for the 2009 year is currently in progress and is expected to be completed during 2014. Examinations on specific tax positions taken for federal and provincial income tax returns for the 2007 and 2008 year are currently in progress and are also expected to be completed during 2014. In the U.S., the federal income tax returns filed for the year 2007 as well as 2009 to 2012 remain subject to examination by the taxation authorities, and the state income tax returns filed for the years 2009 to 2012 remain subject to examination by the taxation authorities. An examination of the federal income tax returns for the year 2007 as well as 2009 to 2011 is currently in progress. Examinations of certain state income tax returns by the state taxation authorities are currently in progress. The Company does not anticipate any significant impacts to its results of operations or financial position as a result of the final resolutions of such matters.

Notes to Consolidated Financial
Statements

U.S. GAAP

14 – Segmented information

The Company manages its operations as one business segment over a single network that spans vast geographic distances and territories, with operations in Canada and the United States. Financial information reported at this level, such as revenues, operating income, and cash flow from operations, is used by corporate management, including the Company's chief operating decision-maker, 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). Corporate management is responsible for, among others, CN's marketing strategy, the management of large customer accounts, overall planning and control of infrastructure and rolling stock, the allocation of resources, and other functions such as financial planning, accounting and treasury.

The role of each region is to manage the day-to-day service requirements within their respective territories and control direct costs incurred locally. Such cost control is required to ensure that pre-established efficiency standards set at the corporate level are met. The regions execute the overall corporate strategy and operating plan established by corporate management, as their management of throughput and control of direct costs does not serve as the platform for the Company's decision-making process. Approximately 95% of the Company's freight revenues are from national accounts for which freight traffic spans North America and touches various commodity groups. As a result, the Company does not manage revenues on a regional basis since a large number of the movements originate in one region and pass through and/or terminate in another region.

The regions also demonstrate common characteristics in each of the following areas:

- (i) each region's sole business activity is the transportation of freight over the Company's extensive rail network;
- (ii) the regions service national accounts that extend over the Company's various commodity groups and across its rail network;
- (iii) the services offered by the Company stem predominantly from the transportation of freight by rail with the goal of optimizing the rail network as a whole;
- (iv) the Company and its subsidiaries, not its regions, are subject to single regulatory regimes in both Canada and the U.S.

For the years ended December 31, 2013, 2012, and 2011, no major customer accounted for more than 10% of total revenues and the largest rail freight customer represented approximately 2%, 2%, and 3%, respectively, of total rail freight revenues.

For the reasons mentioned herein, the Company reports as one operating segment.

The following tables provide information by geographic area:

In millions	Year ended December 31,	2013	2012	2011
Revenues				
Canada		\$ 7,149	\$ 6,770	\$ 6,169
U.S.		3,426	3,150	2,859
		\$ 10,575	\$ 9,920	\$ 9,028
In millions	Year ended December 31,	2013	2012	2011
Net income				
Canada		\$ 1,762	\$ 1,972	\$ 1,836

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U.S.		850	708	621
		\$ 2,612	\$ 2,680	\$ 2,457
In millions	December 31,	2013	2012	
Properties				
Canada		\$ 15,056	\$ 14,406	
U.S.		11,171	10,135	
		\$ 26,227	\$ 24,541	

Notes to Consolidated Financial
Statements

U.S. GAAP

15 – Earnings per share

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, which was paid on November 29, 2013, to shareholders of record on November 15, 2013. All share and per share data presented herein reflect the impact of the stock split. The following table provides a reconciliation between basic and diluted earnings per share:

In millions, except per share data	Year ended December 31,	2013	2012	2011
Net income		\$ 2,612	\$ 2,680	\$ 2,457
Weighted-average shares outstanding		843.1	871.1	902.2
Effect of stock options		3.0	4.3	6.7
Weighted-average diluted shares outstanding		846.1	875.4	908.9
Basic earnings per share		\$ 3.10	\$ 3.08	\$ 2.72
Diluted earnings per share		\$ 3.09	\$ 3.06	\$ 2.70

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.

16 – Major commitments and contingencies

A. Leases

The Company has operating and capital leases, mainly for locomotives, freight cars and intermodal equipment. Of the capital leases, many provide the option to purchase the leased items at fixed values during or at the end of the lease term. As at December 31, 2013, the Company's commitments under these operating and capital leases were \$680 million and \$991 million, respectively. Minimum rental payments for operating leases having initial non-cancelable lease terms of more than one year and minimum lease payments for capital leases for the next five years and thereafter, are as follows:

In millions	Operating	Capital
2014	\$ 132	\$ 209
2015	111	113
2016	84	317
2017	66	154
2018	56	14
2019 and thereafter	231	184
	\$ 680	991
Less: imputed interest on capital leases at rates ranging from approximately 0.7% to 8.5%		209

Present value of minimum lease payments included in debt	\$	782
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The Company also has operating lease agreements for its automotive fleet with one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately \$30 million and generally extend over five years.

Rent expense for all operating leases was \$179 million, \$162 million and \$143 million for the years ended December 31, 2013, 2012 and 2011, respectively. Contingent rentals and sublease rentals were not significant.

Notes to Consolidated Financial
Statements

U.S. GAAP

B. Commitments

As at December 31, 2013, 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 \$482 million (\$735 million as at December 31, 2012). The Company also has estimated remaining commitments of approximately \$291 million (US\$273 million), in relation to the U.S. federal government legislative requirement to implement positive train control (PTC) by 2015. In addition, it has estimated remaining commitments of approximately \$72 million (US\$68 million), in relation to the acquisition of the principal lines of the former Elgin, Joliet and Eastern Railway Company, 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 85% of its estimated 2014 volume, 60% of its anticipated 2015 volume, 55% of its anticipated 2016 volume and 20% of its anticipated 2017 volume at market prices prevailing on the date of the purchase.

C. 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.

In 2013, the Company recorded a \$1 million increase to its provision for personal injuries and other claims in Canada as a result of a comprehensive actuarial study for employee injury claims as well as various other legal claims.

As at December 31, 2013, 2012 and 2011, the Company's provision for personal injury and other claims in Canada was as follows:

In millions	2013	2012	2011
Balance January 1	\$ 209	\$ 199	\$ 200
Accruals and other	38	55	31
Payments	(37)	(45)	(32)
Balance December 31	\$ 210	\$ 209	\$ 199
Current portion - Balance December 31	\$ 31	\$ 39	\$ 39

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.

Notes to Consolidated Financial
Statements

U.S. GAAP

Due to the inherent uncertainty involved in projecting future events, including events related to occupational diseases, which include but are not limited to, the timing and number of actual claims, the average cost per claim and the legislative and judicial environment, the Company's future payments may differ from current amounts recorded. In 2013, the Company recorded an \$11 million reduction to its provision for U.S. personal injury and other claims attributable to non-occupational disease, third-party and occupational disease claims pursuant to the 2013 external actuarial study. In previous years, external actuarial studies have supported a net increase of \$1 million and a net reduction of \$6 million to the Company's provision for U.S. personal injury and other claims in 2012 and 2011, respectively. The previous years' changes were mainly attributable to changes in the Company's estimates of unasserted claims and costs related to asserted claims as a result of its ongoing risk mitigation strategy focused on reducing the frequency and severity of claims through injury prevention and containment; mitigation of claims; and lower settlements for existing claims.

As at December 31, 2013, 2012 and 2011, the Company's provision for personal injury and other claims in the U.S. was as follows:

In millions	2013	2012	2011
Balance January 1	\$ 105	\$ 111	\$ 146
Accruals and other	25	28	30
Payments	(24)	(34)	(65)
Balance December 31	\$ 106	\$ 105	\$ 111
Current portion - Balance December 31	\$ 14	\$ 43	\$ 45

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 December 31, 2013, 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.

D. 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 280 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.

Notes to Consolidated Financial
Statements

U.S. GAAP

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 accruals, which are classified as Casualty and other in the Consolidated Statement of Income, include amounts for newly identified sites or contaminants as well as adjustments to initial estimates. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

As at December 31, 2013, 2012 and 2011, the Company's provision for specific environmental sites was as follows:

In millions	2013	2012	2011
Balance January 1	\$ 123	\$ 152	\$ 150
Accruals and other	14	(5)	17
Payments	(18)	(24)	(15)
Balance December 31	\$ 119	\$ 123	\$ 152
Current portion - Balance December 31	\$ 41	\$ 31	\$ 63

The Company anticipates that the majority of the liability at December 31, 2013 will be paid out over the next five years. However, some costs may be paid out over a longer period. Based on the information currently available, the Company considers its provisions to be adequate.

Unknown existing environmental concerns

While the Company believes that it has identified the costs likely to be incurred for environmental matters 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:

- (i) the lack of specific technical information available with respect to many sites;
- (ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;
- (iii) 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
- (iv)

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.

Notes to Consolidated Financial
Statements

U.S. GAAP

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

Future occurrences

In railroad and related transportation operations, it is possible that derailments or other accidents, including spills and releases of hazardous materials, may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, compliance with laws and other risks, including costs relating to the performance of clean-ups, payment of environmental penalties and remediation obligations, and damages relating to harm to individuals or property.

Regulatory compliance

The Company may incur significant capital and operating costs associated with environmental regulatory compliance and clean-up requirements, in its railroad operations and relating to its past and present ownership, operation or control of real property. Operating expenses for environmental matters amounted to \$18 million in 2013, \$16 million in 2012 and \$4 million in 2011. In addition, based on the results of its operations and maintenance programs, as well as ongoing environmental audits and other factors, the Company plans for specific capital improvements on an annual basis. Certain of these improvements help ensure facilities, such as fuelling stations and waste water and storm water treatment systems, comply with environmental standards and include new construction and the updating of existing systems and/or processes. Other capital expenditures relate to assessing and remediating certain impaired properties. The Company's environmental capital expenditures amounted to \$10 million in 2013, \$13 million in 2012 and \$11 million in 2011.

E. 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.

(i) 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 2021, 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 December 31, 2013, the maximum exposure in respect of these guarantees was \$160 million. There are no recourse provisions to recover any amounts from third parties.

(ii) Other guarantees

As at December 31, 2013, the Company, including certain of its subsidiaries, had granted \$481 million of irrevocable standby letters of credit and \$90 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 December 31, 2013, the maximum potential liability under these guarantee instruments was \$571 million, of which \$528 million related to workers' compensation and other employee benefit liabilities and \$43 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 December 31, 2013 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.

Notes to Consolidated Financial
Statements

U.S. GAAP

(iii) 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 year, 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, the Company was unable to determine the fair value of these guarantees and accordingly, no liability was recorded. There are no recourse provisions to recover any amounts from third parties.

17 – Financial instruments

A. Risk management

In the normal course of business, the Company is exposed to various risks such as customer credit risk, commodity price risk, interest rate risk, foreign currency risk, and liquidity risk. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Finance Committee, with a goal of maintaining a strong balance sheet, optimizing earnings per share and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company has limited involvement with derivative financial instruments in the management of its risks and does not use them for trading purposes. At December 31, 2013 and 2012, the Company did not have any significant derivative financial instruments outstanding.

(i) Customer credit risk

In the normal course of business, the Company monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. Although the Company believes there are no significant

concentrations of credit risk, economic conditions can affect the Company's customers and can result in an increase to the Company's credit risk and exposure to business failures of its customers. To manage its credit risk, on an ongoing basis, the Company's focus is on keeping the average daily sales outstanding within an acceptable range and working with customers to ensure timely payments, and in certain cases, requiring financial security, including letters of credit.

(ii) Fuel

The Company is exposed to commodity price risk related to purchases of fuel and the potential reduction in net income due to increases in the price of diesel. The impact of variable fuel expense is mitigated substantially through the Company's fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines. While this program provides effective coverage, residual exposure remains given that fuel price risk cannot be completely mitigated due to timing and given the volatility in the market. As such, the Company may enter into derivative instruments to mitigate such risk when considered appropriate.

Notes to Consolidated Financial
Statements

U.S. GAAP

(iii) Interest rate

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates.

Such risk exists in relation to the Company's pension and postretirement plans and to its long-term debt. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans, particularly the Company's main Canadian pension plan. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuations may have a material adverse effect on the funded status of the plans and on the Company's results of operations.

The Company mainly issues fixed-rate debt, which exposes the Company to variability in the fair value of the debt. The Company also issues debt with variable interest rates which exposes the Company to variability in interest expense. To manage its interest rate exposure, the Company manages its borrowings in line with liquidity needs, maturity schedule, and currency and interest rate profile. In anticipation of future debt issuances, the Company may enter into forward rate agreements. The Company does not currently hold any significant derivative financial instruments to manage its interest rate risk. At December 31, 2013, Accumulated other comprehensive loss included an unamortized gain of \$8 million, \$6 million after-tax (\$8 million, \$6 million after-tax at December 31, 2012) relating to treasury lock transactions settled in a prior year, which are being amortized over the term of the related debt.

(iv) Foreign currency

The Company conducts its business in both Canada and the U.S. and as a result, is affected by currency fluctuations. Changes in the exchange rate between the Canadian dollar and other currencies (including the US dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby further affect the Company's revenues and expenses.

All of the Company's U.S. operations are self-contained foreign entities with the US dollar as their functional currency. Accordingly, the U.S. operations' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (loss). For the purpose of minimizing volatility of earnings resulting from the conversion of US dollar-denominated long-term debt into the Canadian dollar, the Company designates the US dollar-denominated long-term debt of the parent company as a foreign currency hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated long-term debt are recorded in Accumulated other comprehensive loss.

Occasionally, the Company enters into short-term foreign exchange contracts as part of its cash management strategy. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Changes in the fair value of forward contracts, resulting from changes in foreign exchange rates, are recognized in the Consolidated Statement of Income as they occur. As at December 31, 2013, a gain of \$6 million, before tax, related to the fair value of the foreign exchange forward contracts of US\$325 million, was recorded in Other income on the Consolidated Statement of Income.

(v) Liquidity risk

The Company monitors and manages its cash requirements to ensure sufficient access to funds to meet operational and investing requirements. The Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet, by monitoring its adjusted debt-to-total capitalization ratio and its adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple, 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 is supplemented by its commercial paper program to meet short-term liquidity needs. If the Company were to lose access to the program for an extended period of time, the Company could rely on its \$800 million revolving credit facility. The Company's primary uses of funds are for working capital requirements, including income tax installments as they become due and pension contributions, contractual obligations, capital expenditures relating to track infrastructure and other, acquisitions, dividend payouts, and the repurchase of shares through a share buyback program, when applicable. The Company sets priorities on its uses of available funds based on short-term operational requirements, expenditures to maintain a safe railway and strategic initiatives, while also considering its long-term contractual obligations and returning value to its shareholders.

Notes to Consolidated Financial
Statements

U.S. GAAP

B. Fair value of 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:

(i) 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.

(ii) 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.

(iii) 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 December 31, 2013 and December 31, 2012 for which the carrying values on the Consolidated Balance Sheet are different from their fair values:

In millions	December 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value

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Financial assets					
	Investments (Note 5)	\$ 57	\$ 164	\$ 30	\$ 125
Financial liabilities					
	Total debt (Note 8)	\$ 7,840	\$ 8,683	\$ 6,900	\$ 8,379

Notes to Consolidated Financial
Statements

U.S. GAAP

18 – Accumulated other comprehensive loss

The components of Accumulated other comprehensive loss are as follows:

In millions	Pension and other postretirement benefit plans	Foreign currency items	Derivative instruments	Total before tax	Tax recovery (expense)	Total net of tax
Beginning balance at December 31, 2010	\$ (1,193)	\$ (582)	\$ 10	\$ (1,765)	\$ 56	\$ (1,709)
Other comprehensive income (loss)						
before reclassifications:						
Foreign currency translation adjustments	-	8	-	8	19	27
Actuarial loss arising during the year	(1,541)	-	-	(1,541)	397	(1,144)
Prior service cost from plan amendment arising during the year	(28)	-	-	(28)	7	(21)
Amounts reclassified from accumulated other comprehensive income (loss):						
Amortization of net actuarial loss	8	-	-	8 (1)	(2) (3)	6
Amortization of prior service cost	4	-	-	4 (1)	(1) (3)	3
Amortization of gain on treasury lock	-	-	(2)	(2) (2)	1 (3)	(1)
Other comprehensive income (loss)	(1,557)	8	(2)	(1,551)	421	(1,130)
Ending balance at December 31, 2011	\$ (2,750)	\$ (574)	\$ 8	\$ (3,316)	\$ 477	\$ (2,839)
Other comprehensive income (loss)						
before reclassifications:						
Foreign currency translation adjustments	-	(5)	-	(5)	(17)	(22)
Actuarial loss arising during the year	(660)	-	-	(660)	176	(484)

Prior service cost from plan amendment arising during the year	(6)	-	-	(6)	2	(4)
Amounts reclassified from accumulated other comprehensive income (loss):						
Amortization of net actuarial loss	119	-	-	119 (1)	(32) (3)	87
Amortization of prior service cost	7	-	-	7 (1)	(2) (3)	5
Other comprehensive income (loss)	(540)	(5)	-	(545)	127	(418)
Ending balance at December 31, 2012	\$ (3,290)	\$ (579)	\$ 8	\$ (3,861)	\$ 604	\$ (3,257)

Other comprehensive income (loss) before reclassifications:						
Foreign currency translation adjustments	-	46	-	46	59	105
Actuarial gain arising during the year	1,544	-	-	1,544	(412)	1,132
Amounts reclassified from accumulated other comprehensive income (loss):						
Amortization of net actuarial loss	226	-	-	226 (1)	(60) (3)	166
Amortization of prior service cost	5	-	-	5 (1)	(1) (3)	4
Other comprehensive income	1,775	46	-	1,821	(414)	1,407
Ending balance at December 31, 2013	\$ (1,515)	\$ (533)	\$ 8	\$ (2,040)	\$ 190	\$ (1,850)

(1) Reclassified to Labor and fringe benefits on the Consolidated Statement of Income and included in components of net periodic benefit cost. See Note 11 - Pensions and other postretirement benefits to the Company's Annual Consolidated Financial Statements.

(2) Reclassified to Other income on the Consolidated Statement of Income.

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

Management's Discussion and
Analysis

U.S. GAAP

Item 4

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 2013 Annual Consolidated Financial Statements and Notes thereto.

Business profile

CN is engaged in the rail and related transportation business. CN's network of approximately 20,000 route miles of track spans Canada and mid-America, 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. In 2013, no individual commodity group accounted for more than 21% of total revenues. From a geographic standpoint, 16% of revenues relate to United States (U.S.) domestic traffic, 32% transborder traffic, 20% 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 which was effected in the form of a stock dividend of one additional common share of CN for each share outstanding, which was 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 the share repurchase programs were adjusted to reflect the issuance of additional

Management's Discussion and
Analysis

U.S. GAAP

shares. All share and per share data presented herein reflect the impact of the stock split. In addition, the Company's Board of Directors approved an increase of 16% to the quarterly dividend to common shareholders, from \$0.215 in 2013 to \$0.250 in 2014.

For 2013, the Company's Board of Directors approved share repurchase programs funded mainly from cash generated from operations. The first share repurchase program, which was approved on October 22, 2012, allowed for the repurchase of up to \$1.4 billion in common shares, not to exceed 36.0 million common shares, between October 29, 2012 and October 28, 2013. The Company purchased a total of 29.4 million common shares under this share repurchase program. On October 22, 2013, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 30.0 million common shares, between October 29, 2013 and October 23, 2014. 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; 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 customers 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 2013, the Company benefited from a modest increase in North American industrial production, a significant increase in U.S. housing starts and moderate growth in U.S. automotive sales. In 2014, the Company expects North American industrial production to increase by approximately three percent as well as continued improvements in U.S. housing starts and U.S. automotive sales. For the 2013/2014 crop year, the Company assumes Canadian grain production to be well above the five-year average and U.S. grain production to be above the five-year average. With respect to the 2014/2015 crop year, the Company assumes Canadian and U.S. grain production to be in line with their respective five-year averages.

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 by strong offshore grain exports due to record western Canadian crop. Longer term, the Company expects continued growth in offshore export markets including metallurgical and thermal coal as well as potash.

Management's Discussion and
Analysis

U.S. GAAP

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 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 \$2.1 billion on capital programs, of which over \$1.2 billion is targeted towards track infrastructure to continue operating a safe railway and improve the productivity and fluidity of the network; and includes the replacement of rail, ties, and other track materials, bridge improvements, as well as various branch line upgrades. This amount also includes funds for strategic initiatives and additional enhancements to the track infrastructure in western and eastern Canada as well as in the U.S. In 2013, the Company invested approximately \$100 million in the Edmonton-Winnipeg corridor in order to increase rail capacity and support strong volumes of grain and other commodities.

In 2014, CN's equipment capital expenditures are targeted to reach approximately \$300 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, in 2013 CN took delivery of 44 new and 37 second-hand high-horsepower locomotives. In 2014, CN expects to take delivery of an additional 45 new high-horsepower locomotives.

In 2014, CN also expects to spend approximately \$600 million on facilities to grow the business including transloads, distribution centers, and the completion of its Calgary Logistics Park project; on information technology to improve service and operating efficiency; and on 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, contractual obligations, capital expenditures relating to track infrastructure and other, acquisitions, dividend payouts, and the repurchase of shares through share buyback programs, when applicable. 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

Management's Discussion and
Analysis

U.S. GAAP

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 Carbon Disclosure Project report, and the Corporate Citizenship Report "Delivering Responsibly" are available on CN's website. In 2013, 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 is also the second consecutive year that the Company has been listed on the DJSI World Index and the fifth straight year on the DJSI North American Index.

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. In 2014, CN expects to open two new state-of-the-art training centers located in Winnipeg, Manitoba and suburban Chicago, Illinois 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. 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 rate for the year ended December 31, 2013 was \$1.03 per US\$1.00 compared to \$1.00 per US\$1.00 for 2012. 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

U.S. GAAP

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" 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,</p>	<ul style="list-style-type: none"> · North American and global economic growth