

CANADIAN NATIONAL RAILWAY CO  
Form 40-F  
February 01, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

FORM 40-F

---

**REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: **December 31, 2015** Commission File Number: **1-2413**

**CANADIAN NATIONAL RAILWAY COMPANY**

(Exact name of registrant as specified in its charter)

~~C40111a~~  
(Jurisdiction  
of  
incorporation  
or  
organization)  
(Primary Standard Industrial  
Classification Code Number)

**98-0018609**  
(I.R.S.  
Employer  
Identification  
No.)

**935 de La Gauchetiere Street West**  
**Montreal, Quebec**  
**Canada H3B 2M9**  
**(514) 399-7091**

(Address, including zip code, and telephone number including area code,  
of Registrant's principal executive offices)

**CT Corporation System**  
**111 Eighth Avenue**  
**New York, N.Y. 10011**  
**(212) 894-8600**

(Name, address, including zip code, and telephone number, including area code, of agent for service in the United States)

---

Securities registered pursuant to Section 12(b) of the Act:

	Name of each exchange on which registered
Title of each class	<b>New York Stock Exchange</b>
<b>Common shares</b>	<b>Toronto Stock Exchange</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

5.80% notes due June 1, 2016

1.45% notes due December 15, 2016

floating rate notes due November 14, 2017

5.85% notes due November 15, 2017

5.55% notes due May 15, 2018

6.80% notes due July 15, 2018

5.55% notes due March 1, 2019

2.85% notes due December 15, 2021

2.25% notes due November 15, 2022

7.63% debentures due May 15, 2023

2.95% notes due November 21, 2024

6.90% notes due July 15, 2028

7.38% debentures due October 15, 2031



Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 40-F

6.25% notes due August 1, 2034

6.20% notes due June 1, 2036

6.71% Puttable Reset Securities (PURS)<sup>SM</sup> due July 15, 2036

6.375% debentures due November 15, 2037

3.50% notes due November 15, 2042

4.50% notes due November 7, 2043

7.70% 100-year debentures due September 15, 2096

For annual reports, indicate by check mark the information filed with this Form:

Annual information form  Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**At December 31, 2015, 788,668,176 common shares were issued and outstanding.**

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

## **CONTROLS AND PROCEDURES**

### *Disclosure Controls and Procedures*

The United States Securities and Exchange Commission (the "Commission") defines "disclosure controls and procedures" as controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

After evaluating the effectiveness of Canadian National Railway Company's disclosure controls and procedures as of the end of the fiscal year covered by this report, Canadian National Railway Company's President and Chief Executive Officer (the "CEO") and its Executive Vice President and Chief Financial Officer (the "CFO") have concluded that Canadian National Railway Company's disclosure controls and procedures were effective as of the end of the fiscal year covered by this report.

### *Management's Annual Report on Internal Control over Financial Reporting*

The report of management on our internal control over financial reporting is located under the heading "Management's Report on Internal Control Over Financial Reporting" in our audited consolidated financial statements, which are filed as Exhibit 99.2 to this annual report on Form 40-F, and is incorporated by reference herein.

### *Attestation Report of the Registered Public Accounting Firm*

The attestation report on our internal control over financial reporting is located under the heading "Report of Independent Registered Public Accounting Firm" in our audited consolidated financial statements, which are filed as Exhibit 99.2 to this annual report on Form 40-F, and is incorporated by reference herein.

### *Changes in Internal Control Over Financial Reporting*

During the year ended December 31, 2015, there was no change in Canadian National Railway Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Canadian National Railway Company's internal control over financial reporting.

## **AUDIT COMMITTEE FINANCIAL EXPERT**

The Registrant's board of directors has determined that it has several audit committee financial experts serving on its Audit Committee. Mr. Donald J. Carty has been determined to be an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to U.S. Companies. The SEC has indicated that the designation or identification of Mr. Carty as an audit committee financial expert does not deem him an "expert" for any purpose, impose any duties, obligations or liability on Mr. Carty that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

## **CODE OF ETHICS**

The Registrant has adopted a code of ethics (the "Code of Business Conduct") that applies to all employees and officers, including its principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct is available at the Registrant's Internet website, [www.cn.ca](http://www.cn.ca), under the caption "Delivering Responsibly / Governance." Any amendments to the Code of Business Conduct will be posted at the Registrant's Internet website at the address listed above.

## Principal Accountant Fees and Services

Information relating to principal accountant fees and services is set forth under the heading “Auditors’ Fees” in Item 10.2 of the Registrant’s 2015 annual information form included in this Form 40-F.

## Off balance sheet arrangements

The information provided under the heading “Off Balance Sheet Arrangements” set forth in the 2015 Management’s Discussion and Analysis filed as Exhibit 99.1 to this annual report on Form 40-F is incorporated by reference herein.

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading “Contractual Obligations” set forth in the 2015 Management’s Discussion and Analysis filed as Exhibit 99.1 to this annual report on Form 40-F is incorporated by reference herein.

## IDENTIFICATION OF THE AUDIT COMMITTEE

The members of the Audit Committee are set forth under the heading “Composition of the Audit Committee” in Item 9.2 of the Registrant’s 2015 annual information form included in this Form 40-F .

## MINE SAFETY DISCLOSURE

Not applicable.

## CORPORATE GOVERNANCE PRACTICES

The Registrant’s board of directors has reviewed the Registrant’s corporate governance practices in response to the U.S. Sarbanes-Oxley Act of 2002, applicable rules of the U.S. Securities and Exchange Commission, as well as the NYSE Corporate Governance Standards (the “NYSE Standards”). Except as disclosed on its website, the Registrant’s corporate

governance practices do not differ significantly from that followed by U.S. domestic companies under the NYSE Standards. A discussion of differences is available at the Registrant's Internet website, [www.cn.ca](http://www.cn.ca) under the caption "Delivering Responsibly / Governance".

## **UNDERTAKING**

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.



**CANADIAN NATIONAL  
RAILWAY COMPANY**

**2015**

**ANNUAL INFORMATION FORM**

**February 1, 2016**

## TABLE OF CONTENTS

Annual		Management's Discussion & Analysis
Information		(as filed on February 1, 2016)
Form		Incorporated by Reference
<b><u>Item 1</u></b>	<b><u>general information</u></b>	<b><u>1</u></b>
<b><u>Item 2</u></b>	<b><u>Incorporation</u></b>	<b><u>2</u></b>
	<b><u>2.1 Incorporation of the Issuer</u></b>	<b><u>2</u></b>
	<b><u>2.2 Subsidiaries</u></b>	<b><u>2</u></b>
<b><u>Item 3</u></b>	<b><u>General Development of the Business</u></b>	<b><u>2</u></b>
	<b><u>3.1 General Development of the Business During the Last Three Years</u></b>	<b><u>2</u></b>
	<b><u>3.2 Strategy overview</u></b>	<b><u>11 47-50</u></b>
<b><u>Item 4</u></b>	<b><u>Description of the Business</u></b>	<b><u>12</u></b>
	<b><u>4.1 Overview</u></b>	<b><u>12</u></b>
	<b><u>4.2 Commodity Groups</u></b>	<b><u>12 54-58</u></b>
	<b><u>4.3 Competitive Conditions</u></b>	<b><u>12 88</u></b>
	<b><u>4.4 Labor</u></b>	<b><u>12 89</u></b>
	<b><u>4.5 Social Policies</u></b>	<b><u>12</u></b>
	<b><u>4.6 Regulation</u></b>	<b><u>13 90-94</u></b>
	<b><u>4.7 Environmental Matters</u></b>	<b><u>17 86-87</u></b>
	<b><u>4.8 Legal Matters</u></b>	<b><u>18 84-87</u></b>
	<b><u>4.9 Intangible Properties</u></b>	<b><u>19</u></b>
	<b><u>4.10 Risk Factors</u></b>	<b><u>19 88-97</u></b>
<b><u>Item 5</u></b>	<b><u>Dividends</u></b>	<b><u>19</u></b>
<b><u>Item 6</u></b>	<b><u>Description of Capital Structure</u></b>	<b><u>19</u></b>
	<b><u>6.1 General Description of Capital Structure</u></b>	<b><u>19</u></b>
	<b><u>6.2 Share Ownership Constraints</u></b>	<b><u>20</u></b>
	<b><u>6.3 Ratings of Debt Securities</u></b>	<b><u>20</u></b>
<b><u>Item 7</u></b>	<b><u>Transfer Agent and Registrar</u></b>	<b><u>21</u></b>
<b><u>Item 8</u></b>	<b><u>Market for Securities</u></b>	<b><u>22</u></b>
	<b><u>8.1 Trading Price and Volume</u></b>	<b><u>22</u></b>
	<b><u>8.2 Prior Sales</u></b>	<b><u>22</u></b>
<b><u>Item 9</u></b>	<b><u>Directors and Executive Officers</u></b>	<b><u>23</u></b>
	<b><u>9.1 Directors</u></b>	<b><u>23</u></b>
	<b><u>9.2 Audit Committee Disclosure</u></b>	<b><u>25</u></b>
	<b><u>9.3 Executive Officers</u></b>	<b><u>28</u></b>
	<b><u>9.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions</u></b>	<b><u>29</u></b>
<b><u>Item 10</u></b>	<b><u>Interest of management and others in material transactions</u></b>	<b><u>29</u></b>
<b><u>Item 11</u></b>	<b><u>Interest of experts</u></b>	<b><u>30</u></b>
<b><u>Item 12</u></b>	<b><u>AdditioNal Information</u></b>	<b><u>30</u></b>
	<b><u>SCHEDULE A - CHARTER OF THE AUDIT COMMITTEE</u></b>	<b><u>31</u></b>



Table of Contents

*2015 Annual Information Form*

Item 1 general information

Except as otherwise indicated in this Annual Information Form (AIF), the information contained herein is given as of December 31, 2015. All references in this AIF to “dollars” or “\$” are to Canadian dollars and all financial information reflected herein is determined on the basis of, and prepared in accordance with, United States generally accepted accounting principles (U.S. GAAP), unless otherwise indicated.

As used herein, the word Company or CN means, as the context requires, Canadian National Railway Company and/or its subsidiaries.

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

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

**Forward-looking statements**

Statements relating to general economic and business conditions, including those referring to revenue growth opportunities

**Key assumptions or expectations**

· North American and global economic growth

- Long-term growth opportunities being less affected by current economic conditions
- North American and global economic growth
- Adequate credit ratios
- Investment-grade credit ratings
- Access to capital markets
- Adequate cash generated from operations and other sources of financing
- Adequate cash generated from operations and other sources of financing
- Adequate long-term return on investment on pension plan assets
- Level of funding as determined by actuarial valuations, particularly influenced by discount rates for funding purposes

Statements relating to the Company's ability to meet debt repayments and future obligations in the foreseeable future, including income tax payments, and capital spending

Statements relating to pension contributions

Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or regulatory developments; compliance with environmental laws and regulations; actions by regulators; various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and

Table of Contents

*2015 Annual Information Form*

the United States. Reference should be made to the discussion of business risks in CN's 2015 Management's Discussion and Analysis (MD&A) for detailed information on major risk factors, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov) and on CN's website, at [www.cn.ca](http://www.cn.ca).

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

Item 2 Incorporation

2.1 Incorporation of the Issuer

CN was incorporated in 1919 by special act of the Parliament of Canada with the appointment of its first Board of Directors by Order in Council in 1922. CN's continuance under the *Canada Business Corporations Act* was authorized by the *CN Commercialization Act* and was effected by Certificate of Continuance dated August 24, 1995. On November 9, 1995, CN filed Articles of Amendment in order to subdivide its outstanding common shares (Common Shares). As of November 28, 1995, CN ceased to be a Crown corporation and became a publicly held corporation with its Common Shares listed on the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX). On April 19, 2002, CN filed Articles of Amendment in order to provide that shareholder meetings may be held at certain specified places in the United States. Such constating documents are hereinafter collectively referred to as the Articles.

CN's Articles provide that the head office of the Company shall be situated in the Montreal Urban Community, Quebec. The Company's registered and head office is located at 935 de La Gauchetière Street West, Montreal, Quebec, H3B 2M9, Canada, and its telephone number is 1-888-888-5909.

2.2 Subsidiaries

CN's principal subsidiaries as of December 31, 2015, all of which are wholly owned (directly or indirectly), and their jurisdiction of incorporation, are indicated below:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>
North American Railways, Inc.	Delaware
Grand Trunk Corporation	Delaware
Grand Trunk Western Railroad Company	Michigan
Illinois Central Corporation	Delaware
Illinois Central Railroad Company	Illinois
Wisconsin Central Ltd.	Delaware

The financial statements of each of the above principal subsidiaries are consolidated within CN's financial statements.

### Item 3 General Development of the Business

#### 3.1 General Development of the Business During the Last Three Years

CN's goal is to deliver valuable transportation services for its customers and to grow the business at low incremental cost. CN thereby creates value for its shareholders by striving for sustainable financial performance through profitable top-line growth, adequate free cash flow and return on invested capital. CN is also focused on returning



Table of Contents

*2015 Annual Information Form*

value to shareholders through dividend payments and share repurchase programs. With a clear strategic agenda, driven by a commitment to innovation, productivity, supply-chain collaboration, while running trains safely and minimizing environmental impact, CN aims to create value for its customers as well as its shareholders.

The initiatives undertaken by CN in the last three years to achieve its growth and profitability goals and to enhance shareholder value can be grouped into a few key areas. These include acquisitions and dispositions, targeted capital investment spending and other initiatives to strengthen the Company's position in the marketplace, and financial management initiatives, as described below.

2015 Highlights

*Strategic Initiatives and Capital Spending*

CN's business strategy is anchored on the continuous pursuit of Operational and Service Excellence, an unwavering commitment to safety and sustainability, and the development of a solid team of motivated and competent railroaders. CN's success is dependent on long-term economic viability and on the presence of a supportive regulatory and policy environment that drives investment and innovation. CN's success also depends on a stream of capital investments that supports its business strategy. These investments cover a wide range of areas, from track infrastructure and rolling stock, to information technology, other equipment and assets that improve the safety, efficiency and reliability of CN's service offering.

In 2015, CN spent \$2.7 billion in its capital program, with \$1.53 billion targeted at maintaining the safety and integrity of the network, particularly track infrastructure. This investment included the replacement of rail, ties, and other track materials, bridge improvements, as well as various branch line upgrades. CN has invested significantly to build for the future, increasing network capacity, resilience and fluidity across its network, including its Edmonton-Winnipeg and Winnipeg-Chicago corridors. As part of its overall capital program, CN invested more than \$120 million in 2015 to install sections of double tracks, extended sidings, crossovers and yard improvements on main lines in the two corridors.

In 2015, CN's equipment capital expenditures reached \$555 million, allowing the Company to be ready for growth opportunities and to improve the quality of the fleet, including the acquisition of 90 new high-horsepower locomotives. Orders have been placed for 90 additional new locomotives to be delivered in 2016. CN also spent \$615 million on initiatives to support growth and drive productivity, such as transloads and distribution centers; and information technology to improve service and operating efficiency.

The Company is also strengthening its commitment to *Operational and Service Excellence* through a wide range of innovations anchored on its continuous improvement philosophy. CN is building on its industry leadership in terms of fast and reliable hub-to-hub service by continuing to improve across the range of customer touch points. The Company's major push in first-mile/last-mile service is all about improving the quality of customer interactions – developing a sharper outside-in perspective; better monitoring of traffic forecasts; higher and more responsive car order fulfillment; and proactive customer communication at the local level, supported by iAdvise, an information tool that is improving the reliability and consistency of shipment information.

CN is committed to the safety of its employees, the communities in which it operates and the environment. The Company's long-term safety improvement is driven by continued significant investments in infrastructure, rigorous safety processes and a focus on employee training and safety awareness. CN continues to strengthen its safety culture by investing significantly in training, coaching, recognition and employee involvement initiatives.

Table of Contents

*2015 Annual Information Form*

Financial Management Initiatives

The Company has a commercial paper program in Canada and a new commercial paper program was established in the U.S. during the second quarter of 2015. Both programs are backstopped by the Company's revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the U.S. dollar equivalent, on a combined basis. As at December 31, 2015, the Company had total commercial paper borrowings of \$458 million (\$U.S. 331 million). The weighted-average interest rate on these borrowings was 0.41%.

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million. On June 18, 2015, the expiry date of the agreement was extended by one year to February 1, 2018. As at December 31, 2015, the Company had no proceeds received under the accounts receivable securitization program. The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use.

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

The Company has a series of bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. On March 12, 2015 the expiry date of these agreements was extended by one year to April 28, 2018. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at December 31, 2015, the Company had letters of credit drawn of \$551 million from a total committed amount of \$575 million by the various banks. As at December 31, 2015, cash and cash equivalents of \$523 million were pledged as collateral and recorded as Restricted cash and cash equivalents

on the Consolidated Balance Sheet.

On September 11, 2015, CN announced that the TSX had accepted CN's amended 2014-2015 notice of intention of October 2014 to make a Normal Course Issuer Bid. The notice was amended to permit the repurchase by CN of its Common Shares under a specific share repurchase program during the term of the Normal Course Issuer Bid. The purchases formed part of CN's 2014-2015 Normal Course Issuer Bid for up to 28.0 million common shares announced on October 21, 2014. CN entered into an agreement with a third party to repurchase its common shares through daily purchases that took place from September 16 to October 23, 2015. Pursuant to the terms of the agreement, and subject to the terms of an issuer bid exemption order issued by the Ontario Securities Commission (OSC), the third party purchased CN's Common Shares on the open market for its own account in accordance with the rules applicable to the Normal Course Issuer Bid, for the purpose of ultimately fulfilling its delivery obligations to CN under the agreement. The price that CN paid for Common Shares purchased by it from the third party under the agreement was negotiated by CN and the third party and was at a discount to the prevailing market price of CN's Common Shares on the TSX at the time of the purchase.

On September 22, 2015, under its then current shelf prospectus and registration statement, the Company issued \$350 million 2.80% Notes due 2025, \$400 million 3.95% Notes due 2045 and \$100 million 4.00% Notes due 2065, in

Table of Contents

*2015 Annual Information Form*

the Canadian capital markets, which resulted in total net proceeds of \$841 million, intended for general corporate purposes, including the redemption and refinancing of outstanding indebtedness and share repurchases.

On October 27, 2015, the Board of Directors of the Company (Board of Directors) approved a new share repurchase program which allows for the repurchase of up to 33.0 million Common Shares, between October 30, 2015 and October 29, 2016, pursuant to a normal course issuer bid at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the TSX and on the same day, the Company announced that it would enter into an agreement with a third party to repurchase Common Shares through daily purchases subject to a maximum of 4.0 million Common Shares. The agreement was amended on November 30, 2015 to increase the number of Common Shares to be purchased to 5.175 million Common Shares. The purchases took place from October 30, 2015 to December 24, 2015. Pursuant to the terms of the agreement, and subject to the terms of an issuer bid exemption order issued by the OSC, the third party purchased CN's Common Shares on the open market for its own account in accordance with the rules applicable to the Normal Course Issuer Bid, for the purpose of ultimately fulfilling its delivery obligations to CN under the agreement. The price that CN paid for Common Shares purchased by it from the third party under the agreement was negotiated by CN and the third party and was at a discount to the prevailing market price of CN's Common Shares on the TSX at the time of the purchase. The purchases formed part of CN's repurchase of up to 33.0 million Common Shares under its current share repurchase program.

On December 18, 2015, the Company announced that it had entered into an agreement with a third party to repurchase Common Shares through daily purchases subject to a maximum of 4.356 million Common Shares. The purchases are taking place from December 29, 2015 to February 29, 2016. Pursuant to the terms of the agreement, and subject to the terms of an issuer bid exemption order issued by the OSC, the third party is purchasing CN's Common Shares on the open market for its own account in accordance with the rules applicable to the Normal Course Issuer Bid, for the purpose of ultimately fulfilling its delivery obligations to CN under the agreement. The price that CN is paying for Common Shares purchased by it from the third party under the agreement was negotiated by CN and the third party and was at a discount to the prevailing market price of CN's Common Shares on the TSX at the time of the purchase. The purchases form part of CN's repurchase of up to 33.0 million Common Shares under its current share repurchase program.

On January 5, 2016, CN filed a new shelf prospectus with the Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC) pursuant to which CN may issue up to \$6.0 billion of debt securities in Canadian and U.S. markets. The current shelf prospectus and registration statement expires February 4, 2018 and replaces CN's previous shelf prospectus and registration statement. Access to capital markets under the shelf prospectus is dependent on market conditions at the time of pricing.

Significant Collective Agreements

*Canadian workforce*

On January 30, 2015, the agreement for the renewal of the collective agreement with the United Steelworkers of America (USW) governing maintenance of way employees was ratified. The new collective agreement expires on December 31, 2018.

On February 25, 2015, the agreement for the renewal of the collective agreement with the Teamsters Canada Rail Conference (TCRC-RCTC) governing rail traffic controllers was ratified. The new collective agreement expires on December 31, 2018.

On March 13, 2015, the agreements for the renewal of the collective agreements with Unifor governing clerical, intermodal employees and owner operator truck drivers were ratified. The new collective agreements expire on March 31, 2019.

Table of Contents

*2015 Annual Information Form*

On March 17, 2015, the agreement for the renewal of the collective agreement with Unifor governing shopcraft employees was ratified. The new collective agreement expires on December 31, 2018.

On April 16, 2015, the agreement for the renewal of the collective agreement with the TCRC governing locomotive engineers (TCRC-LE) was ratified. The new collective agreement expires on December 31, 2017.

Under the Canada Labour Code, the law governing labor relations for the Canadian railroad industry, collective agreements remain in force until such time as the parties have either reached a renewed agreement or the dispute resolution mechanisms in the Code have been exhausted.

*U.S. workforce*

As of February 1, 2016, the Company had in place agreements with bargaining units representing the entire unionized workforce at Grand Trunk Western Railroad Company (GTW), companies owned by Illinois Central Corporation (ICC), companies owned by Wisconsin Central Ltd. (WC), Bessemer & Lake Erie Railroad Company (BLE) and The Pittsburgh and Conneaut Dock Company (PCD). Agreements in place have various moratorium provisions up to 2018, which preserve the status quo in respect of the given collective agreement during the terms of such moratoriums. All collective agreements covering non-operating craft employees and four collective agreements covering operating craft employees are currently under renegotiation.

During 2015, the Company renewed a collective agreement with the United Transportation Union (UTU) (a division of the International Association of Sheet Metal, Air, Rail, and Transportation Workers - SMART) governing conductors on the Grand Trunk Western. On January 15, 2016, the Company renewed three additional collective agreements with UTU, governing 57 yardmasters at GTW, WC, and a small subset working on the ICC.

The general approach to labor negotiations by U.S. Class I railroads is to bargain on a collective national basis with the industry, which GTW, ICC, WC and BLE have agreed to participate in, effective January 2015, for collective agreements covering non-operating employees. Collective agreements covering operating employees at GTW, ICC, WC, BLE and all employees at PCD continue to be bargained on a local (corporate) basis.

Where negotiations are ongoing, the terms and conditions of existing agreements generally continue to apply until new agreements are reached or the processes of the *Railway Labor Act* have been exhausted.

## 2014 Highlights

### Acquisitions and Dispositions

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

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



Table of Contents

*2015 Annual Information Form*

risks and rewards of ownership on the Guelph in 2018, at which time the gain on the sale is expected to be recognized.

*Strategic Initiatives and Capital Spending*

In 2014, CN spent approximately \$2.3 billion in its capital program, with \$1.25 billion targeted at maintaining the safety and integrity of the network. This investment included the replacement of rail, ties, and other track materials, bridge improvements, as well as various branch line upgrades. CN invested significantly to build for the future, increasing network capacity, resilience and fluidity across its network, including its Edmonton-Winnipeg and Winnipeg-Chicago corridors. As part of its overall capital program, CN invested more than \$100 million in 2014 to install sections of double tracks, extended sidings, crossovers, high-speed switches and yard improvements on main lines in the two corridors.

In 2014, CN's equipment capital expenditures reached approximately \$375 million, allowing the Company to tap growth opportunities and improve the quality of the fleet. In order to handle the expected traffic increase and improve operational efficiency, 60 new high-horsepower locomotives were added to the fleet in 2014. Furthermore, orders were placed for 180 additional new locomotives: 90 delivered in 2015 and 90 to be delivered in 2016. CN also spent approximately \$575 million on initiatives to support growth and drive productivity, such as transloads and distribution centers; and information technology to improve service and operating efficiency.

As part of its objective to build a solid team of railroaders, the Company opened two new state-of-the-art training facilities in 2014, in Winnipeg, Manitoba and Homewood, Illinois, at a cost of \$55 million, aimed at preparing employees to be highly skilled, safety conscious and confident in their work environment. Curricula for technical training and leadership development was also improved to meet the learning needs of CN's railroaders – both current and future. These programs and initiatives provided a solid platform for the assessment and development of the Company's talent pool, and are tightly integrated with the Company's business strategy.

The Company also strengthened its commitment to *Operational and Service Excellence* through a wide range of innovations anchored on its continuous improvement philosophy. Through a portfolio of initiatives called CustomerFIRST, the Company innovated to address key customer pinch points, including the first-mile and last-mile of the shipment cycle. iAdvise, an information tool that is improving the reliability and consistency of shipment information, was the latest initiative in CN's strategy to communicate better with customers. In 2014, CN rolled out its iAdvise tool to a significant number of its largest customers.

## Financial Management Initiatives

The Company has a commercial paper program, which is back-stopped by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of \$800 million, or the U.S. dollar equivalent. As at December 31, 2014, the Company had no commercial paper borrowings.

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million. On July 23, 2014, the expiry date of the agreement was extended by one year to February 1, 2017. As such, as at December 31, 2014, the Company recorded \$50 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 1.24% which is secured by and limited to \$56 million of accounts receivable. The accounts receivable securitization program provides the Company with readily available short-term financing for general corporate use.

The Company has an \$800 million revolving credit facility agreement with a consortium of lenders. The agreement, which contains customary terms and conditions, allows for an increase in the facility amount, up to a maximum of \$1.3 billion, as well as the option to extend the term by an additional year at each anniversary date, subject to the

Table of Contents

*2015 Annual Information Form*

consent of individual lenders. The Company exercised such option and on March 14, 2014, the expiry date of the agreement was extended by one year to May 5, 2019. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the LIBOR, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at December 31, 2014, the Company had no outstanding borrowings under its revolving credit facility and there were no draws during the year ended December 31, 2014.

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

On February 18, 2014, under its then current shelf prospectus, the Company issued \$250 million 2.75% Notes due 2021 in the Canadian capital markets, which resulted in net proceeds of \$247 million, intended for general corporate purposes, including the redemption and refinancing of outstanding indebtedness and share repurchases.

On October 21, 2014, the Board of Directors approved a new share repurchase program which allowed for the repurchase of up to 28.0 million Common Shares, between October 24, 2014 and October 23, 2015, pursuant to a normal course issuer bid at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the TSX.

On October 27, 2014, the Company announced its intention to repurchase up to 5.175 million of its Common Shares from an arm's-length third-party seller by means of private agreements to be formalized at the time of each such purchase. Such repurchases were made pursuant and subject to the terms of an issuer bid exemption order issued by the OSC and took place before October 23, 2015. The purchases formed part of CN's repurchase of up to 28.0 million Common Shares under the share repurchase program announced on October 21, 2014. The price that CN paid for any Common Shares purchased under such private agreements was negotiated by CN and the third-party seller and was at a discount to the prevailing market price of CN's Common Shares on the TSX at the time of the purchase.

On November 14, 2014, under its then current shelf prospectus and registration statement, the Company completed a two-tranche debt offering of U.S.\$600 million (\$682 million), comprised of U.S.\$250 million (\$284 million) Floating Rate Notes due 2017, and U.S.\$350 million (\$398 million) 2.95% Notes due 2024 in the U.S. capital markets, which resulted in net proceeds of U.S.\$593 million (\$675 million), intended for general corporate purposes, including the redemption and refinancing of outstanding indebtedness, and share repurchases.

#### Significant Collective Agreements

On June 19, 2014, settlement through binding arbitration decision was reached on the collective agreement between CN and the Teamsters Canada Rail Conference, covering approximately 3,000 mainline conductors and yard crews (TCRC-CTY). The new collective agreement is set to expire on July 22, 2016.

In the fourth quarter of 2014, the bargaining process commenced for the renewal of CN's collective agreements expiring on December 31, 2014, with: