CANADIAN NATIONAL RAILWAY CO
Form 6-K
October 22, 2012

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

Report of Foreign Issuer

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

For the month of October, 2012

Commission File Number: 001-02413

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

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

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

Form 20-F ____ Form 40-F X

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

Yes ____ No X

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

Yes ____ No X

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

Yes ____ No X

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

Canadian National Railway Company

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Item 1
North America's Railroad

CN reports Q3-2012 net income of C$664 million,
or C$1.52 per diluted share

Diluted Q3-2012 EPS increased 10 per cent over adjusted diluted EPS of C$1.38 for Q3-2011 (1)

MONTREAL, Oct. 22, 2012 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the third quarter and nine-month period ended Sept. 30, 2012.

Third-quarter 2012 highlights

- Net income was C$664 million, or C$1.52 per diluted share, compared with year-earlier net income of C$659 million, or C$1.46 per diluted share.
- Q3-2012 diluted earnings per share (EPS) increased 10 per cent over year-earlier adjusted diluted EPS of C$1.38 that excluded an after-tax gain of C$0.08 per diluted share on the sale of substantially all of the assets of IC RailMarine Terminal Company during Q3-2011. (1)
- Revenues for the most recent quarter increased eight per cent to C$2,497 million, while revenue ton-miles rose seven per cent and carloadings increased three per cent.
- Operating income increased five per cent to C$985 million.
- The operating ratio increased by 1.3 points to 60.6 per cent.
- Free cash flow for the first nine months of 2012 was C$1,036 million, including the impact of Q1-2012 voluntary pension plan contributions totalling C$450 million, compared with free cash flow of C$1,328 million for the same period of 2011. (1)

Claude Mongeau, president and chief executive officer, said: "CN's focus on operational and service excellence helped the Company post a solid third-quarter performance, with revenue growth in all our business segments and solid improvement in most of our key operating metrics.

"Petroleum and chemicals led the way with a 15 per cent increase in revenues, largely as a result of higher shipments of crude oil originating in western Canada. CN's crude oil volume in the quarter rose to a run rate of 40,000 carloads on an annualized basis.

"We continued to improve service and were able to make solid progress in our key velocity, efficiency and safety metrics across our network."

Mongeau also said: "While cautious about the strength of the economy, we see continued opportunities to grow our business in the longer term. Through our agenda of supply chain collaboration, CN expects to increase revenues slightly faster than general growth in the North American economy and to accommodate this growth at low incremental cost."

New CN share repurchase program
Mongeau said: “With our strong balance sheet and expectations of continued shareholder value creation, we are pleased to announce that CN’s Board of Directors has approved a new share repurchase program for up to C$1.4 billion in common shares. This will be executed through a normal course issuer bid to purchase for cancellation a maximum of 18 million shares.”

Foreign currency impact on results
Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company’s results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN’s third-quarter and first nine-month 2012 net income would have been lower by C$8 million, or C$0.02 per diluted share and C$25 million, or C$0.06 per diluted share, respectively. (1)

Third-quarter 2012 revenues, traffic volumes and expenses
The eight per cent rise in third-quarter revenues mainly resulted from higher freight volumes, due in part to growth in North American and Asian economies and the Company’s performance above market conditions in a number of segments; freight rate increases; and the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues.

Revenues increased for petroleum and chemicals (15 per cent), coal (13 per cent), grain and fertilizers (10 per cent), automotive (nine per cent), metals and minerals (seven per cent), intermodal (six per cent), and forest products (three per cent).

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased seven per cent from the year-earlier period.

Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, increased two per cent over the third-quarter 2011 performance, driven by freight rate increases and the positive translation impact of the weaker Canadian dollar, partly offset by a lower fuel surcharge and an increase in the average length of haul.

Operating expenses for the third quarter increased by 10 per cent to C$1,512 million, mainly due to higher labor and fringe benefits expense, increased purchased services and material expense, as well as increased volume-related fuel costs.

Forward-Looking Statements

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

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Key assumptions
CN remains comfortable with the 2012 financial guidance issued on July 25, 2012, in its second-quarter 2012 financial and operational results news release. CN expects to deliver up to 15 per cent growth in adjusted diluted EPS for 2012, over adjusted diluted EPS of C$4.84 in 2011. Also, CN expects to generate free cash flow of approximately C$1 billion for 2012 – taking into consideration a potential C$250 million additional voluntary pension contribution in the fourth quarter. (1)

CN's 2012 outlook is based on a number of economic and market assumptions. The Company is forecasting that North American industrial production for 2012 will increase by about 3.0 per cent. For the year, CN also expects U.S. housing starts to be approximately 750,000 units, and U.S. motor vehicles sales to be approximately 14.5 million units. In addition, CN is assuming the 2012/2013 U.S. grain crop will be well below, and the 2012/2013 Canadian grain crop will be slightly higher, than the five-year average. With the assumptions above, CN assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN also assumes the Canadian-U.S. exchange rate to be around parity for 2012 and that the price of crude oil (West Texas Intermediate) for the year to be approximately US$95 per barrel. In 2012, CN plans to invest approximately C$1.8 billion in capital programs, of which more than C$1 billion will be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company will invest in projects to support a number of productivity and growth initiatives.

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

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

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

CN – Canadian National Railway Company and its operating railway subsidiaries – 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, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the Company's website at www.cn.ca.

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CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP) - unaudited
(In millions, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Revenues	$ 2,497	$ 2,307	$ 7,386	$ 6,651
Operating expenses				
Labor and fringe benefits	476	396	1,489	1,301
Purchased services and material	304	271	908	825
Fuel	369	350	1,124	1,030
Depreciation and amortization	227	218	687	653
Equipment rents	64	60	185	165
Casualty and other	72	74	230	220
Total operating expenses	1,512	1,369	4,623	4,194
Operating income	985	938	2,763	2,457
Interest expense	(84)	(85)	(256)	(256)
Other income (Note 3)	18	70	320	380
Income before income taxes	919	923	2,827	2,581
Income tax expense (Note 7)	(255)	(264)	(757)	(716)
Net income	$ 664	$ 659	$ 2,070	$ 1,865
Earnings per share (Note 10)				
Basic	$ 1.53	$ 1.47	$ 4.73	$ 4.11
Diluted	$ 1.52	$ 1.46	$ 4.71	$ 4.08
Weighted-average number of shares				
Basic	433.9	448.3	437.3	453.4
Diluted	435.9	451.4	439.6	456.9

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (U.S. GAAP) - unaudited
(In millions)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Net income	$ 664	$ 659	$ 2,070	$ 1,865
Other comprehensive income (loss)				
Foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations	(210)	495	(199)	315
Translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	202	(471)	189	(302)
Pension and other postretirement benefit plans (Note 6)				
Amortization of net actuarial loss included in net periodic benefit cost (income)	30	2	92	6
Amortization of prior service cost included in net periodic benefit cost (income)	1	1	5	2
Derivative instruments	-	-	-	(1)
Other comprehensive income before income taxes	23	27	87	20
Income tax recovery (expense)	(37)	67	(51)	42
Other comprehensive income (loss)	(14)	94	36	62
Comprehensive income	$ 650	$ 753	$ 2,106	$ 1,927

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET (U.S. GAAP) - unaudited
(In millions)

	September 30 2012	December 31 2011	September 30 2011
Assets			
Current assets:			
Cash and cash equivalents	$ 175	$ 101	$ 192
Restricted cash and cash equivalents (Note 4)	518	499	489
Accounts receivable	845	820	801
Material and supplies	272	201	272
Deferred and receivable income taxes	37	122	52
Other	78	105	62
Total current assets	1,925	1,848	1,868
Properties	24,004	23,917	23,800
Intangible and other assets	349	261	899
Total assets	$ 26,278	$ 26,026	$ 26,567
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and other	$ 1,631	$ 1,580	$ 1,565
Current portion of long-term debt (Note 4)	678	135	525
Total current liabilities	2,309	1,715	2,090
Deferred income taxes	5,603	5,333	5,613
Pension and other postretirement benefits, net of current portion	553	1,095	530
Other liabilities and deferred credits	738	762	800
Long-term debt	5,770	6,441	5,878
Shareholders' equity:			
Common shares	4,120	4,141	4,149
Accumulated other comprehensive loss	(2,803)	(2,839)	(1,647)
Retained earnings	9,988	9,378	9,154

Total shareholders' equity		11,305		10,680		11,656
Total liabilities and shareholders' equity	$	26,278	$	26,026	$	26,567

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (U.S. GAAP) - unaudited
(In millions)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Common shares (1)				
Balance, beginning of period	$ 4,132	$ 4,211	$ 4,141	$ 4,252
Stock options exercised and other	27	(6)	105	50
Share repurchase programs (Note 4)	(39)	(56)	(126)	(153)
Balance, end of period	$ 4,120	$ 4,149	$ 4,120	$ 4,149
Accumulated other comprehensive loss				
Balance, beginning of period	$ (2,789)	$ (1,741)	$ (2,839)	$ (1,709)
Other comprehensive income (loss)	(14)	94	36	62
Balance, end of period	$ (2,803)	$ (1,647)	$ (2,803)	$ (1,647)
Retained earnings				
Balance, beginning of period	$ 9,821	$ 9,001	$ 9,378	$ 8,741
Net income	664	659	2,070	1,865
Share repurchase programs (Note 4)	(334)	(361)	(969)	(1,011)
Dividends	(163)	(145)	(491)	(441)
Balance, end of period	$ 9,988	$ 9,154	$ 9,988	$ 9,154

See accompanying notes to unaudited consolidated financial statements.

(1) During the three and nine months ended September 30, 2012, the Company issued 0.8 million and 2.7 million common shares, respectively, as a result of stock options exercised and repurchased 4.1 million and 13.3 million common shares, respectively, under its share repurchase program. At September 30, 2012, the Company had 431.5 million common shares outstanding.

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (U.S. GAAP) - unaudited
(In millions)

	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Operating activities				
Net income	$ 664	$ 659	$ 2,070	$ 1,865
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	227	218	687	653
Deferred income taxes	59	104	331	327
Gain on disposal of property (Note 3)	-	(60)	(281)	(348)
Changes in operating assets and liabilities:				
Accounts receivable	(25)	55	(37)	(17)
Material and supplies	3	(27)	(73)	(59)
Accounts payable and other	50	60	140	102
Other current assets	5	16	(6)	9
Pensions and other, net	17	(38)	(495)	(147)
Net cash provided by operating activities	1,000	987	2,336	2,385
Investing activities				
Property additions	(508)	(415)	(1,121)	(1,012)
Disposal of property (Note 3)	-	70	311	369
Change in restricted cash and cash equivalents (Note 4)	(46)	(22)	(19)	(489)
Other, net	7	5	5	22
Net cash used in investing activities	(547)	(362)	(824)	(1,110)
Financing activities				
Issuance of debt (Note 4)	230	132	1,861	196
Repayment of debt	(338)	(186)	(1,806)	(225)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	24	5	97	56
Repurchase of common shares (Note 4)	(373)	(417)	(1,095)	(1,164)
Dividends paid	(163)	(145)	(491)	(441)
Net cash used in financing activities	(620)	(611)	(1,434)	(1,578)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	(3)	3	(4)	5
Net increase (decrease) in cash and cash equivalents	(170)	17	74	(298)

Cash and cash equivalents, beginning of period	345	175	101	490
Cash and cash equivalents, end of period	$ 175	$ 192	$ 175	$ 192
Supplemental cash flow information				
Net cash receipts from customers and other	$ 2,476	$ 2,326	$ 7,396	$ 6,659
Net cash payments for:				
Employee services, suppliers and other expenses	(1,235)	(1,124)	(4,002)	(3,551)
Interest	(89)	(87)	(275)	(249)
Personal injury and other claims	(13)	(15)	(57)	(48)
Pensions (Note 6)	(29)	(5)	(587)	(103)
Income taxes	(110)	(108)	(139)	(323)
Net cash provided by operating activities	$ 1,000	$ 987	$ 2,336	$ 2,385

See accompanying notes to unaudited consolidated financial statements.

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 1 - Basis of presentation

In management's opinion, the accompanying unaudited Interim Consolidated Financial Statements and Notes thereto, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial statements, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at September 30, 2012, December 31, 2011 and September 30, 2011, and its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2012 and 2011.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2011 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited Interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's Interim Management's Discussion and Analysis (MD&A) and the 2011 Annual Consolidated Financial Statements and Notes thereto.

Note 2 - Accounting change

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, giving companies the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income in the statement of changes in shareholders' equity. ASU 2011-05 also requires reclassification adjustments for each component of accumulated other comprehensive income (AOCI) in both net income and other comprehensive income (OCI) to be separately disclosed on the face of the financial statements. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income, which deferred the effective date to present reclassification adjustments in net income. The effective date of the deferral is consistent with the effective date of ASU 2011-05 which is effective for fiscal years beginning on or after December 15, 2011. The FASB is currently re-evaluating the requirements, with a final decision expected in 2012. The Company has adopted the requirements of these ASUs.

Note 3 - Disposal of property

2012 – Disposal of Bala-Oakville
In March 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 – Disposal of IC RailMarine Terminal

In August 2011, the Company sold substantially all of the assets of IC RailMarine Terminal Company (ICRMT), 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. ICRMT 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 ICRMT transfer facility. The transaction resulted in a gain on disposal of $60 million ($38 million after-tax) that was recorded in Other income.

2011 – Disposal of Lakeshore East

In March 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

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CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

"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.

Note 4 - Financing activities

Revolving credit facility

In May 2011, the Company entered into an $800 million four-year revolving credit facility agreement with a consortium of lenders. In March 2012, the agreement was amended to extend the term to May 2017. The agreement, which contains customary terms and conditions, allows for increases in the facility amount, up to a maximum of $1,300 million, 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 plans to use the credit facility for working capital and general corporate purposes, including backstopping its commercial paper program. As at September 30, 2012, the Company had no outstanding borrowings under its revolving credit facility (nil as at December 31, 2011).

Commercial paper

The Company has a commercial paper program, which is backed by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent. As at September 30, 2012, the Company had borrowings of $171 million of commercial paper ($82 million (US$81 million) as at December 31, 2011) presented in Current portion of long-term debt on the Consolidated Balance Sheet. The weighted-average interest rate on these borrowings was 1.06% (0.20% as at December 31, 2011).

Bilateral letter of credit facilities and Restricted cash and cash equivalents

In April 2011, the Company entered into a series of three-year bilateral letter of credit facility agreements with various banks to support its requirements to post letters of credit in the ordinary course of business. In March 2012, the agreements were amended to extend the maturity by one year to April 2015 and an additional letter of credit agreement was signed with an additional bank. Under these agreements as amended, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued. As at September 30, 2012, from a total committed amount of $559 million ($520 million as at December 31, 2011) by the various banks, the Company had letters of credit drawn of $549 million ($499 million as at December 31, 2011). As at September 30, 2012, cash and cash equivalents of $518 million ($499 million as at December 31, 2011) were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheet.

Share repurchase programs

In October 2011, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 17.0 million common shares between October 28, 2011 and October 27, 2012 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 16.7 million common shares under this share repurchase program.
The following table provides the activity under such share repurchase program as well as the share repurchase program of the prior year:

In millions, except per share data	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Number of common shares repurchased (1)	4.1	6.0	13.3	16.5
Weighted-average price per share (2)	$ 89.82	$ 69.48	$ 82.32	$ 70.56
Amount of repurchase	$ 373	$ 417	$ 1,095	$ 1,164

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

(2) Includes brokerage fees.

See Note 11 – Subsequent event for additional information on the Company's new share repurchase program approved on October 22, 2012.

CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Note 5 - Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided in Note 11 – Stock plans to the Company's 2011 Annual Consolidated Financial Statements. The following table provides total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the three and nine months ended September 30, 2012 and 2011.

	Three months ended September 30		Nine months ended September 30	
In millions	2012	2011	2012	2011
Cash settled awards				
Restricted share unit plan	$ 17	$ (8)	$ 47	$ 39
Voluntary Incentive Deferral Plan (VIDP)	4	(13)	14	5
	21	(21)	61	44
Stock option awards	3	2	8	7
Total stock-based compensation expense (benefit)	$ 24	$ (19)	$ 69	$ 51
Tax benefit (expense) recognized in income	$ 7	$ (6)	$ 16	$ 12

Cash settled awards
Following approval by the Board of Directors in January 2012, the Company granted 0.5 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted by the Company are generally scheduled for payout in cash after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital over the plan period.

Payout is conditional upon the attainment of a minimum share price calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for senior and executive management employees ("executive employees"), payout is 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 RSU 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 agreements, the Company may at its discretion change the manner of vesting of the RSUs to suspend payout on any RSUs pending resolution of such matter.

In February 2012, the Company's Board of Directors unanimously voted to forfeit and cancel the RSU 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. Pending a final resolution of the legal proceedings, the Company, without prejudice, has not recorded a gain from the cancellation of the RSU payout. See Note 8 – Major commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.

As at September 30, 2012, 0.1 million RSUs remained authorized for future issuance under this plan.

The following table provides the 2012 activity for all cash settled awards:

	RSUs		VIDP	
In millions	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2011	0.9	0.9	-	1.4
Granted (Payout)	0.5	(0.7)	-	-
Outstanding at September 30, 2012	1.4	0.2 (1)	-	1.4

(1) Consists of the units of the RSU payout currently in dispute. See Note 8 - Major commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.

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CANADIAN NATIONAL RAILWAY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

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

In millions, unless otherwise indicated	RSUs (1)				VIDP (2)	Total
Year of grant	2012	2011	2010	2009		
Stock-based compensation expense recognized over requisite service period						
Nine months ended September 30, 2012	$ 10	$ 18	$ 19	$ -	$ 14	$ 61
Nine months ended September 30, 2011	N/A	$ 6	$ 12	$ 21	$ 5	$ 44
Liability outstanding						
September 30, 2012	$ 10	$ 38	$ 63	$ 18 (3)	$ 128	$ 257
December 31, 2011	N/A	$ 19	$ 44	$ 82	$ 119	$ 264
Fair value per unit						
September 30, 2012 ($)	$ 58.67	$ 79.45	$ 86.62	N/A	$ 86.99	N/A
Fair value of awards vested during the period						
Nine months ended September 30, 2012	$ -	$ -	$ -	N/A	$ 1	$ 1
Nine months ended September 30, 2011	N/A	$ -	$ -	$ -	$ 1	$ 1
Nonvested awards at September 30, 2012						
Unrecognized compensation cost	$ 16	$ 15	$ 4	N/A	$ 1	$ 36
Remaining recognition period (years)	2.3	1.3	0.3	N/A	N/A (4)	N/A
Assumptions (5)						
Stock price ($)	$ 86.99	$ 86.99	$ 86.99	N/A	$ 86.99	N/A
Expected stock price volatility (6)	18%	16%	16%	N/A	N/A	N/A
Expected term (years) (7)	2.3	1.3	0.3	N/A	N/A	N/A
Risk-free interest rate (8)	1.12%	1.08%	0.97%	N/A	N/A	N/A
Dividend rate ($) (9)	$ 1.50	$ 1.50	$ 1.50	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) Consists of the carrying value of the RSU payout currently in dispute. See Note 8 - Major Commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.
(4) The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units.
(5) Assumptions used to determine fair value are at September 30, 2012.
(6) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.
(7) Represents the remaining period of time that awards are expected to be outstanding.
(8) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.
(9) Based on the annualized dividend rate.

Stock option awards

Following approval by the Board of Directors in January 2012, the Company granted 0.6 million conventional stock options to designated senior management employees. The stock option plan allows eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of grant. The options are exercisable during a period not exceeding 10 years. 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. At September 30, 2012, 10.4 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at September 30, 2012, including conventional and performance-accelerated options, was 4.4 million and 0.4 million, respectively. As at September 30, 2012, the performance-accelerated stock options were fully vested.

CANADIAN NATIONAL RAILWAY COMPANY
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The following table provides the activity of stock option awards in 2012. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on September 30, 2012 at the Company's closing stock price of $86.99.

	Options outstanding				
	Number of options In millions	Weighted-average exercise price		Weighted-average years to expiration	Aggregate intrinsic value In millions
Outstanding at December 31, 2011 (1)	6.9	$	40.80		
Granted	0.6	$	76.70		
Exercised	(2.7)	$	30.90		
Outstanding at September 30, 2012 (1)	4.8	$	49.67	5.8	$ 178
Exercisable at September 30, 2012 (1)	3.1	$	42.53	4.5	$ 136

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

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

In millions, unless otherwise indicated Year of grant	2012	2011	2010	2009	2008	2007	Total
Stock-based compensation expense recognized over requisite service period (1)							
Nine months ended September 30, 2012	$ 3	$ 2	$ 1	$ 2	$ -	$ -	$ 8
Nine months ended September 30, 2011	N/A	$ 3	$ 1	$ 2	$ 1	$ -	$ 7
Fair value per unit At grant date ($)	$						