CANADIAN NATIONAL RAILWAY CO
Form 6-K
April 23, 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 April, 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

NEWS RELEASE

CN reports Q1-2012 net income of C$775 million,
or C$1.75 per diluted share

Excluding gain on sale of rail line segments, adjusted Q1-2012 net income
was C$523 million, or C$1.18 per diluted share (1)

MONTREAL, April 23, 2012 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2012.

First-quarter 2012 highlights

- Net income for the first quarter of 2012 was C$775 million, or C$1.75 per diluted share, versus first-quarter 2011 net income of C$668 million, or C$1.45 per diluted share. The first-quarter 2012 results included an after-tax gain of C$252 million, or C$0.57 per diluted share, and the first quarter of 2011 included an after-tax gain of C$254 million, or C$0.55 per diluted share, from the sale of rail line segments in the Toronto area to a public transit agency.
- Excluding the gain on the sale of the rail line segments, adjusted diluted earnings per share (EPS) for first-quarter 2012 was C$1.18, an increase of 31 per cent over adjusted diluted EPS of C$0.90 for the same period of 2011. (1)
- Revenues increased 13 per cent to C$2,346 million, while revenue ton-miles rose six per cent and carloadings increased five per cent.
- Operating income increased 23 per cent to C$793 million.
- The operating ratio was 66.2 per cent, a 2.8-point improvement over the year-earlier first-quarter performance of 69.0 per cent.
- Free cash flow was C$48 million, reflecting the impact of Q1-2012 voluntary pension plan contributions totalling C$450 million, compared with free cash flow of C$445 million for the same quarter of 2011. (1)

Claude Mongeau, president and chief executive officer, said: "While CN benefited from a milder winter and improving economic conditions, our very solid first-quarter results underscore that our strategy is working. The CN team executed well on all key fronts, delivering high-quality service while handling solid volume growth at low incremental cost.

"CN's commitment to operational and service excellence is the core driver of our strategy. It allows us to offer a more valuable transportation product that improves the supply chains we serve and helps our customers compete more effectively in their own markets."

Revised 2012 financial outlook (2)
CN's strong first-quarter results and assumption of continued improvement in economic conditions have prompted a positive revision to the Company's 2012 financial outlook, first issued on Jan. 24, 2012.

Under its revised 2012 outlook, CN is aiming to:

- Deliver a full 10 per cent growth in diluted EPS, on an adjusted basis, over diluted EPS of C$4.84 in 2011 despite significant headwinds from additional pension expense of approximately C$100 million versus 2011. This compares with CN's prior 2012 diluted EPS growth forecast of up to 10 per cent, including headwinds from additional pension expense of approximately C$120 million.

- Generate free cash flow of approximately C$950 million, compared with the previous guidance in the order of C$875 million. (1)

Mongeau said: "We believe our solid first-quarter performance and our clear focus on helping our customers succeed position us well to achieve this improved financial outlook for the year."

Foreign currency impact on results
Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN's first-quarter 2012 net income would have been lower by C$4 million, or C$0.01 per diluted share. (1)

First-quarter 2012 revenues, traffic volumes and expenses
The 13 per cent rise in first-quarter revenues mainly resulted from higher freight volumes, due in part to continuing improvements in North American and global economies, a milder winter, as well as the Company's performance above market conditions in a number of segments; the impact of a higher fuel surcharge resulting from year-over-year increases in applicable fuel prices and higher volumes; and freight rate increases.

Revenues increased for metals and minerals (31 per cent), coal (18 per cent), intermodal (17 per cent), petroleum and chemicals (15 per cent), automotive (13 per cent), and forest products (10 per cent). Grain and fertilizer revenues declined two per cent.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased six 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 six per cent over the first quarter of 2011, driven by the impact of a higher fuel surcharge and freight rate increases, partly offset by an increase in the average length of haul.

Operating expenses for the first quarter increased by eight per cent to C$1,553 million, mainly due to higher fuel costs as well as labor and fringe benefits expense. These factors were partly offset by lower casualty and other expense.

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

(2) See Forward-Looking Statements for a summary of the key assumptions and risks regarding CN's 2012 outlook.

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.

Key assumptions

CN, as referenced earlier in this news release, is revising the 2012 financial outlook that was first issued on Jan. 24, 2012, in a news release announcing the Company's fourth-quarter and full-year 2011 financial results.

Current assumptions

CN's revised 2012 financial 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 3.5 per cent (up from three per cent previously forecast). CN also expects U.S. housing starts to be approximately 750,000 units (compared with 700,000 units) and U.S. motor vehicles sales to be approximately 14.5 million units (up from 13.5 million units) for the year. In addition, CN is assuming the 2012/2013 grain crops in both Canada and the U.S. will be in line with five-year averages. With respect to the 2011/2012 crop, U.S. corn and soybean production is projected to be slightly below -- and exports are projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts are projected to be moderately above the prior year's crop. With the assumptions above, CN also assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN 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 in the range of US$100 per barrel. In 2012, CN plans to invest approximately C$1.8 billion in capital programs (up from C$1.75 billion), 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.

Prior assumptions (as of Jan. 24, 2012)

The Company forecast that North American industrial production for 2012 would increase by about three per cent. CN also expected U.S. housing starts to be approximately 700,000 units and U.S. motor vehicles sales to be approximately 13.5 million units for the year. In addition, CN assumed the 2012/2013 grain crops in both Canada and the U.S. would be in line with five-year averages. With respect to the 2011/2012 crop, CN stated that U.S. corn and soybean production was slightly below -- and exports were projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts were moderately above the prior year's crop. With the assumptions above, CN also assumed carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN assumed the Canadian-U.S. exchange rate would be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year would be in the range of US$100 per barrel. In 2012, CN said it planned to invest approximately C$1.75 billion in capital programs, of which more than C$1 billion would be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company said it planned to 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.

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 March 31	
	2012	2011
Revenues	$ 2,346	$ 2,084
Operating expenses		
Labor and fringe benefits	509	473
Purchased services and material	299	286
Fuel	376	327
Depreciation and amortization	230	218
Equipment rents	62	51
Casualty and other	77	84
Total operating expenses	1,553	1,439
Operating income	793	645
Interest expense	(86)	(86)
Other income (Note 3)	293	300
Income before income taxes	1,000	859
Income tax expense	(225)	(191)
Net income	$ 775	$ 668
Earnings per share (Note 9)		
Basic	$ 1.76	$ 1.46
Diluted	$ 1.75	$ 1.45
Weighted-average number of shares		
Basic	441.0	458.3
Diluted	443.5	461.8

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 March 31 2012	2011
Net income	$ 775	$ 668
Other comprehensive income (loss)		
Foreign exchange gain (loss) on:		
Translation of the net investment in foreign operations	(117)	(147)
Translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	112	140
Pension and other postretirement benefit plans (Note 6)		
Amortization of net actuarial loss included in net periodic benefit cost (income)	31	2
Amortization of prior service cost included in net periodic benefit cost (income)	2	-
Derivative instruments	-	(1)
Other comprehensive income (loss) before income taxes	28	(6)
Income tax expense	(23)	(21)
Other comprehensive income (loss)	5	(27)
Comprehensive income	$ 780	$ 641

See accompanying notes to unaudited consolidated financial statements.

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

	March 31 2012	December 31 2011	March 31 2011
Assets			
Current assets:			
Cash and cash equivalents	$ 182	$ 101	$ 593
Restricted cash and cash equivalents (Note 4)	499	499	-
Accounts receivable	769	820	770
Material and supplies	261	201	228
Deferred and receivable income taxes	80	122	50
Other	102	105	73
Total current assets	1,893	1,848	1,714
Properties	23,681	23,917	22,677
Intangible and other assets	299	261	821
Total assets	$ 25,873	$ 26,026	$ 25,212
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and other	$ 1,342	$ 1,580	$ 1,341
Current portion of long-term debt (Note 4)	895	135	474
Total current liabilities	2,237	1,715	1,815
Deferred income taxes	5,494	5,333	5,201
Pension and other postretirement benefits, net of current portion	569	1,095	508
Other liabilities and deferred credits	683	762	779
Long-term debt	5,892	6,441	5,451
Shareholders' equity:			
Common shares	4,153	4,141	4,228
Accumulated other comprehensive loss	(2,834)	(2,839)	(1,736)
Retained earnings	9,679	9,378	8,966
Total shareholders' equity	10,998	10,680	11,458
Total liabilities and shareholders' equity	$ 25,873	$ 26,026	$ 25,212

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 March 31 2012	2011
Common shares (1)		
Balance, beginning of period	$ 4,141	$ 4,252
Stock options exercised and other	56	22
Share repurchase programs (Note 4)	(44)	(46)
Balance, end of period	$ 4,153	$ 4,228
Accumulated other comprehensive loss		
Balance, beginning of period	$ (2,839)	$ (1,709)
Other comprehensive income (loss)	5	(27)
Balance, end of period	$ (2,834)	$ (1,736)
Retained earnings		
Balance, beginning of period	$ 9,378	$ 8,741
Net income	775	668
Share repurchase programs (Note 4)	(309)	(294)
Dividends	(165)	(149)
Balance, end of period	$ 9,679	$ 8,966

See accompanying notes to unaudited consolidated financial statements.

(1) During the three months ended March 31, 2012, the Company issued 1.3 million common shares as a result of stock options exercised and repurchased 4.7 million common shares under its current share repurchase program. At March 31, 2012, the Company had 438.7 million common shares outstanding.

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

	Three months ended March 31 2012	2011
Operating activities		
Net income	$ 775	$ 668
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	230	218
Deferred income taxes	194	104
Gain on disposal of property (Note 3)	(281)	(288)
Changes in operating assets and liabilities:		
Accounts receivable	44	(18)
Material and supplies	(61)	(19)
Accounts payable and other	(200)	(64)
Other current assets	(30)	(10)
Pensions and other, net	(546)	(92)
Net cash provided by operating activities	125	499
Investing activities		
Property additions	(224)	(220)
Disposal of property (Note 3)	311	299
Other, net	2	14
Net cash provided by investing activities	89	93
Financing activities		
Issuance of debt (Note 4)	1,077	-
Repayment of debt	(745)	(22)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	54	20
Repurchase of common shares (Note 4)	(353)	(340)
Dividends paid	(165)	(149)
Net cash used in financing activities	(132)	(491)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	(1)	2
Net increase in cash and cash equivalents	81	103
Cash and cash equivalents, beginning of period	101	490
Cash and cash equivalents, end of period	$ 182	$ 593
Supplemental cash flow information		
Net cash receipts from customers and other	$ 2,379	$ 2,105
Net cash payments for:		
Employee services, suppliers and other expenses	(1,534)	(1,271)
Interest	(110)	(87)
Personal injury and other claims	(30)	(17)
Pensions (Note 6)	(553)	(93)

Income taxes		(27)		(138)
Net cash provided by operating activities	$	125	$	499

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 March 31, 2012, December 31, 2011 and March 31, 2011, and its results of operations, changes in shareholders' equity and cash flows for the three months ended March 31, 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 becomes effective for fiscal years beginning on or after December 15, 2011. During the deferral period, the FASB plans to re-evaluate the requirement, 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.

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

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 "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 March 31, 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 March 31, 2012, the Company had borrowings of $427 million of commercial paper ($82 million (US$81 million) as at December 31, 2011) which were presented in Current portion of long-term debt on the Consolidated Balance Sheet. The weighted-average interest rate on these borrowings was 1.09% (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 March 31, 2012, from a total committed amount of $512 million ($520 million as at December 31, 2011) by the various banks, the Company had letters of credit drawn of $499 million ($499 million as at December 31, 2011). As at March 31, 2012, cash and cash equivalents of $499 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 allows 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 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 March 31 2012	2011
Number of common shares repurchased (1)	4.7	5.0
Weighted-average price per share (2)	$ 75.09	$ 67.99
Amount of repurchase	$ 353	$ 340

(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.

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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 months ended March 31, 2012 and 2011.

	Three months ended March 31	
In millions	2012	2011
Cash settled awards		
Restricted share unit plan	$ 9	$ 29
Voluntary Incentive Deferral Plan (VIDP)	1	11
	10	40
Stock option awards	2	2
Total stock-based compensation expense	$ 12	$ 42
Tax benefit recognized in income	$ 1	$ 11

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 7 - Major commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.

As at March 31, 2012, 0.1 million RSUs remained authorized for future issuance under this plan.

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

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

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

(1) Consists of the units of the RSU payout currently in dispute. See Note 7 – Major commitments and contingencies to the Company's unaudited Interim Consolidated Financial Statements.

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						
Three months ended March 31, 2012	$ 2	$ 3	$ 4	$ -	$ 1	$ 10
Three months ended March 31, 2011	N/A	$ 3	$ 10	$ 16	$ 11	$ 40
Liability outstanding						
March 31, 2012	$ 2	$ 23	$ 48	$ 18 (3)	$ 119	$ 210
December 31, 2011	N/A	$ 19	$ 44	$ 82	$ 119	$ 264
Fair value per unit						
March 31, 2012 ($)	$ 42.64	$ 59.34	$ 77.68	N/A	$ 79.27	N/A
Fair value of awards vested during the period						
Three months ended March 31, 2012	$ -	$ -	$ -	$ -	$ 1	$ 1
Three months ended March 31, 2011	N/A	$ -	$ -	$ -	$ 1	$ 1
Nonvested awards at March 31, 2012						
Unrecognized compensation cost	$ 17	$ 17	$ 10	$ -	$ 2	$ 46
	2.8	1.8	0.8	N/A		N/A

Remaining recognition period (years)					N/A (4)	
Assumptions (5)						
Stock price ($)	$ 79.27	$ 79.27	$ 79.27	N/A	$ 79.27	N/A
Expected stock price volatility (6)	19%	17%	18%	N/A	N/A	N/A
Expected term (years) (7)	2.8	1.8	0.8	N/A	N/A	N/A
Risk-free interest rate (8)	1.28%	1.16%	1.03%	N/A	N/A	N/A
Dividend rate ($)						