CANADIAN NATIONAL RAILWAY CO
Form 6-K
October 20, 2009

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, 2009

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 Q3-2009 net income of C$461 million, or C$0.97 per diluted share, compared with year-earlier net income of C$552 million, or C$1.16 per diluted share

MONTREAL, Oct. 20, 2009 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the third quarter ended Sept. 30, 2009.

Third-quarter 2009 highlights

- Net income declined to C$461 million, or C$0.97 per diluted share, from year-earlier net income of C$552 million, or C$1.16 per diluted share, largely as a result of lower freight volumes stemming from depressed North American and global economies.
- Revenues declined 18 per cent to C$1,845 million, carloads declined 15 per cent to 1,032 thousand, and revenue ton-miles declined 11 per cent.
- Operating expenses declined 18 per cent to C$1,156 million, reflecting lower year-over-year fuel prices and cost-containment measures in response to lower traffic.
- Operating income declined 18 per cent to C$689 million, while the operating ratio was essentially flat at 62.7 per cent.
- Nine-month 2009 free cash flow increased to C$657 million from C$483 million generated during the comparable period of 2008. (1)

Net income for the third quarter of 2009 and third quarter of 2008 included deferred income tax recoveries of C$15 million, or C$0.03 per diluted share, and C$41 million, or C$0.09 per diluted share, respectively. The recoveries in both years resulted from the resolution of various income tax matters and adjustments related to tax filings of prior years. Excluding these items, adjusted third-quarter 2009 net income was C$446 million, or C$0.94 per diluted share, compared with year-earlier adjusted net income of C$511 million, or C$1.07 per diluted share, a reduction of 12 per cent in diluted earnings per share. (1)

The year-over-year increase in the U.S. dollar relative to the Canadian dollar affected the conversion of CN's U.S.-dollar-denominated revenues and expenses, increasing third-quarter 2009 net income by approximately C$15 million, or C$0.03 per diluted share.

E. Hunter Harrison, president and chief executive officer, said: "The third quarter of 2009 was another challenging one for CN, with significant weakness across markets affecting our freight volumes. Revenue ton-miles for the quarter declined 11 per cent, but that was a sequential improvement over the 14 per cent RTM reduction in the second quarter of this year.

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“The CN team continued to focus on cost containment and productivity improvements during Q3-2009. And the team delivered. We kept the operating ratio essentially flat at 62.7 per cent and made solid operational gains -- system train speeds improved again, rising 11 per cent year-over-year, while the average dwell time for freight cars in our classification yards across the railroad declined by nine per cent from a year earlier. Equally important, our accident rate improved by eight per cent over the same period of 2008.

“It appears that several of our markets may have hit bottom. Our productivity gains during 2009 position us well for the eventual recovery in traffic.”

Third-quarter 2009 revenues, traffic volumes and expenses

The reduction in third-quarter 2009 revenues largely resulted from significantly lower freight volumes in almost all markets as a result of prevailing economic conditions in the North American and global economies; and the impact of a lower fuel surcharge due to year-over-year decreases in applicable fuel prices, as well as lower freight volumes. Partly offsetting these factors were the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues and freight rate increases.

All commodity groups saw revenue declines – metals and minerals (32 per cent), automotive (25 per cent), forest products (24 per cent), intermodal (20 per cent), petroleum and chemicals (11 per cent), coal (nine per cent), and grain and fertilizers (nine per cent).

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, decreased by nine per cent in the third quarter, largely due to the impact of a lower fuel surcharge and an increase in the average length of haul. These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases.

The 18 per cent decline in operating expenses was primarily due to lower fuel costs, reduced expenses for purchased services and material, and lower casualty and other expenses. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S.-dollar-denominated expenses.

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

Forward-Looking Statements

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. Implicit in these statements, particularly in respect of long-term growth opportunities, is the Company’s assumption that such growth opportunities are less affected by the current situation in the North American and global economies. The Company cautions that its assumptions may not materialize and that the current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. The Company cautions that its results could differ materially from those expressed or implied in such forward-looking statements.

Important factors that could cause such differences include, but are not limited to, the effects of adverse general economic and business conditions, including the recession in the North American economy and the global economic contraction in 2009, 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 risks.

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 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)
(In millions, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(Unaudited)		
Revenues	$ 1,845	$ 2,257	$ 5,485	$ 6,282
Operating expenses				
Labor and fringe benefits	416	424	1,283	1,277
Purchased services and material	227	268	771	836
Fuel	192	390	548	1,099
Depreciation and amortization	191	177	593	528
Equipment rents	66	59	218	183
Casualty and other	64	95	319	285
Total operating expenses	1,156	1,413	3,732	4,208
Operating income	689	844	1,753	2,074
Interest expense	(97)	(92)	(317)	(265)
Other income (Note 3)	21	4	191	7
Income before income taxes	613	756	1,627	1,816
Income tax expense (Note 7)	(152)	(204)	(355)	(494)
Net income	$ 461	$ 552	$ 1,272	$ 1,322
Earnings per share (Note 10)				
Basic	$ 0.98	$ 1.17	$ 2.71	$ 2.77
Diluted	$ 0.97	$ 1.16	$ 2.69	$ 2.74
Weighted-average number of shares				
Basic	469.4	471.7	468.8	477.0
Diluted	473.8	477.1	473.1	482.6

See accompanying notes to unaudited consolidated financial statements.

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

	September 30 2009 (Unaudited)	December 31 2008	September 30 2008 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 233	$ 413	$ 288
Accounts receivable (Note 4)	849	913	657
Material and supplies	237	200	213
Deferred income taxes	70	98	69
Other	60	132	131
	1,449	1,756	1,358
Properties	22,454	23,203	21,472
Intangible and other assets	1,849	1,761	2,134
Total assets	$ 25,752	$ 26,720	$ 24,964
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and other	$ 1,159	$ 1,386	$ 1,329
Current portion of long-term debt	89	506	449
	1,248	1,892	1,778
Deferred income taxes	5,363	5,511	5,246
Other liabilities and deferred credits	1,227	1,353	1,378
Long-term debt (Note 4)	6,511	7,405	6,264
Shareholders' equity:			
Common shares	4,239	4,179	4,171
Accumulated other comprehensive income (loss)	(288)	(155)	54
Retained earnings	7,452	6,535	6,073
	11,403	10,559	10,298
Total liabilities and shareholders' equity	$ 25,752	$ 26,720	$ 24,964

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(Unaudited)		
Common shares (1)				
Balance, beginning of period	$ 4,203	$ 4,208	$ 4,179	$ 4,283
Stock options exercised and other	36	17	60	59
Share repurchase programs (Note 4)	-	(54)	-	(171)
Balance, end of period	$ 4,239	$ 4,171	$ 4,239	$ 4,171
Accumulated other comprehensive income (loss)				
Balance, beginning of period	$ (207)	$ (1)	$ (155)	$ (31)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations	(552)	259	(884)	399
Translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	541	(248)	863	(389)
Pension and other postretirement benefit plans (Note 6):				
Amortization of prior service cost included in net periodic benefit cost	1	6	2	18
Amortization of net actuarial loss (gain) included in net periodic benefit cost (income)	-	-	1	(2)
Other comprehensive income (loss) before income taxes	(10)	17	(18)	26
Income tax recovery (expense)	(71)	38	(115)	59
Other comprehensive income (loss)	(81)	55	(133)	85
Balance, end of period	$ (288)	$ 54	$ (288)	$ 54
Retained earnings				
Balance, beginning of period	$ 7,110	$ 5,902	$ 6,535	$ 5,925
Net income	461	552	1,272	1,322
Share repurchase programs (Note 4)	-	(273)	-	(846)
Dividends	(119)	(108)	(355)	(328)
Balance, end of period	$ 7,452	$ 6,073	$ 7,452	$ 6,073

See accompanying notes to unaudited consolidated financial statements.

(1)

During the three and nine months ended September 30, 2009, the Company issued 1.1 million and 1.9 million common shares, respectively, as a result of stock options exercised. At September 30, 2009, the Company had 470.1 million common shares outstanding.

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(Unaudited)		
Operating activities				
Net income	$ 461	$ 552	$ 1,272	$ 1,322
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	191	177	593	528
Deferred income taxes	96	73	146	187
Gain on disposal of property (Note 3)	-	-	(157)	-
Other changes in:				
Accounts receivable	(31)	209	(2)	(259)
Material and supplies	16	6	(33)	(48)
Accounts payable and other	(51)	(1)	(192)	(99)
Other current assets	45	(16)	86	35
Other	(77)	(43)	(113)	(135)
Cash provided from operating activities	650	957	1,600	1,531
Investing activities				
Property additions	(342)	(415)	(838)	(944)
Acquisitions, net of cash acquired (Note 3)	-	-	(373)	-
Disposal of property (Note 3)	7	-	157	-
Other, net	13	22	50	42
Cash used by investing activities	(322)	(393)	(1,004)	(902)
Financing activities				
Issuance of long-term debt	185	778	1,625	3,430
Reduction of long-term debt	(611)	(798)	(2,070)	(2,796)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized	34	14	49	48
Repurchase of common shares	-	(327)	-	(1,017)
Dividends paid	(119)	(108)	(355)	(328)
Cash used by financing activities	(511)	(441)	(751)	(663)
Effect of foreign exchange fluctuations on U.S. dollar-denominated cash and cash equivalents	(15)	4	(25)	12
Net increase (decrease) in cash and cash equivalents	(198)	127	(180)	(22)

Cash and cash equivalents, beginning of period		431		161		413		310
Cash and cash equivalents, end of period	$	233	$	288	$	233	$	288
Supplemental cash flow information								
Net cash receipts from customers and other	$	1,802	$	2,391	$	5,540	$	6,025
Net cash payments for:								
Employee services, suppliers and other expenses		(925)		(1,195)		(3,257)		(3,749)
Interest		(107)		(82)		(306)		(272)
Workforce reductions		(5)		(5)		(13)		(17)
Personal injury and other claims		(21)		(18)		(86)		(62)
Pensions		(57)		(24)		(85)		(77)
Income taxes		(37)		(110)		(193)		(317)
Cash provided from operating activities	$	650	$	957	$	1,600	$	1,531

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, 2009, December 31, 2008, and September 30, 2008, and its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2009 and 2008.

These unaudited Interim Consolidated Financial Statements and Notes thereto have been prepared using accounting policies consistent with those used in preparing the Company's 2008 Annual Consolidated Financial Statements, except as disclosed in Note 2 – Accounting change. 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 2008 Annual Consolidated Financial Statements and Notes thereto.

These unaudited Interim Consolidated Financial Statements and Notes thereto were approved by the Company's Board of Directors and issued on October 20, 2009. As at such date, there were no material subsequent events affecting any conditions that existed at the date of the balance sheet, including any estimates inherent in the process of preparing the financial statements.

Note 2 – Accounting change

On January 1, 2009, the Company adopted the new requirements of the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 805 – Business combinations relating to the accounting for business combinations (previously Statement of Financial Accounting Standards (SFAS) No. 141 (R)), which became effective for acquisitions with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Until December 31, 2008, the Company was subject to the requirements of SFAS No. 141, "Business Combinations," which required that acquisition-related costs be included as part of the purchase cost of an acquired business. As such, the Company had reported acquisition-related costs in Other current assets pending the closing of its acquisition of the Elgin, Joliet and Eastern Railway Company (EJ&E), which had been subject to an extensive U.S. Surface Transportation Board (STB) approval process. On January 31, 2009, the Company completed its acquisition of the EJ&E and accounted for the acquisition under the revised standard. The Company has incurred acquisition-related costs, including costs to obtain regulatory approval, of approximately $49 million, which were expensed and reported in Casualty and other in the Consolidated Statement of Income for the nine months ended September 30, 2009 pursuant to FASB ASC 805 requirements. At the time of adoption, this change in accounting policy had the effect of decreasing net income by $28 million ($0.06 per basic or diluted earnings per share) and Other current assets by $46 million. This change had no effect on the Consolidated Statement of Cash Flows. Disclosures prescribed by FASB ASC 805 are presented in Note 3 – Acquisition and disposal of property.

Note 3 - Acquisition and disposal of property

Acquisition of Elgin, Joliet and Eastern Railway Company

On January 31, 2009, the Company acquired the principal rail lines of the EJ&E for a total cash consideration of U.S.$300 million (Cdn$373 million), paid with cash on hand. The EJ&E is a short-line railway previously owned by U.S. Steel Corporation (U.S. Steel) that operates over 198 miles of track and serves steel mills, petrochemical customers, utility plants and distribution centers in Illinois and Indiana, as well as connects with all the major railroads entering Chicago. Under the terms of the acquisition agreement, the Company acquired substantially all of the railroad operations of EJ&E, except those that support the Gary Works site in northwest Indiana and the steelmaking operations of U.S. Steel. The acquisition is expected to drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area.

The Company and EJ&E had entered into the acquisition agreement on September 25, 2007, and the Company had filed an application for authorization of the transaction with the STB on October 30, 2007. Following an extensive regulatory approval process, which included an Environmental Impact Statement (EIS) that resulted in conditions imposed to mitigate municipalities' concerns regarding increased rail activity expected along the EJ&E line, the STB approved the transaction on December 24, 2008. The STB also imposed a five-year monitoring and oversight condition, during which the Company is required to file with the STB monthly operational reports as well as quarterly reports on the implementation status of the STB-imposed mitigation conditions. This permits the STB to take further action if there is a material change in the facts and circumstances upon which it relied in imposing the specific mitigation conditions. Over the next few years, the Company has committed to spend approximately U.S.$100 million for railroad infrastructure improvements and over U.S.$60 million under a series of agreements with individual communities, a comprehensive voluntary mitigation program that addresses municipalities' concerns, and additional STB-imposed conditions that the Company has accepted with one exception. The Company has filed an appeal challenging the STB's condition requiring the installation of grade separations at two locations along the EJ&E at Company funding levels significantly beyond prior STB practice. Although the STB granted the Company's application to acquire control of the EJ&E, challenges have since been made by certain communities as to the sufficiency of the EIS which, if successful, could result in further consideration of the environmental impact of the transaction and mitigation conditions imposed. The Company strongly disputes the merit of these challenges, and has intervened in support of the STB's defense against them. The final outcome of such challenges, as well as the resolution of matters that could arise during the STB's five-year oversight of the transaction, cannot be predicted with certainty, and therefore, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

The Company has accounted for the acquisition using the purchase method of accounting pursuant to the new requirements of FASB ASC 805 - Business combinations, which the Company adopted on January 1, 2009. As such, the consolidated financial statements of the Company include the assets, liabilities and results of operations of EJ&E as of January 31, 2009, the date of acquisition. The costs incurred to acquire the EJ&E of approximately $49 million were expensed and reported in Casualty and other in the Consolidated Statement of Income for the nine months ended September 30, 2009 (see Note 2 - Accounting change).

The following table summarizes the consideration paid for EJ&E and the estimated fair value of the assets acquired and liabilities assumed that were recognized at the acquisition date. The Company has not finalized its valuation of such assets and liabilities. As such, the fair value is subject to change, although no material change is anticipated.

(In U.S. millions)		At January 31, 2009
Consideration		
Cash	$	300
Fair value of total consideration transferred	$	300
Recognized amounts of identifiable assets acquired and liabilities assumed		
Current assets	$	6
Other long-term assets		4
Property, plant and equipment		304
Current liabilities		(4)
Other long-term liabilities		(10)
Total identifiable net assets	$	300

The amount of revenues and net income of EJ&E included in the Company's Consolidated Statement of Income from the acquisition date to September 30, 2009, were $55 million and $13 million, respectively. The Company has not provided supplemental pro forma information relating to the pre-acquisition period as it was not considered material to the results of operations of the Company.

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

Disposal of Weston subdivision
In March 2009, the Company entered into an agreement with GO Transit to sell the property known as the Weston subdivision in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Rail Property"), for cash proceeds of $110 million before transaction costs, with a balance on sale of about $50 million placed in escrow on the Company's behalf and to be released in accordance with the terms of the agreement but no later than December 31, 2009. At September 30, 2009, $47 million had been released from escrow and was received by the Company. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Rail Property 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 $157 million ($135 million after-tax), including amounts related to the real estate as well as the retention of trackage and other rights. The Company accounted for the transaction in Other income under the full accrual method of accounting for real estate transactions.

Note 4 - Financing activities

Shelf prospectus and registration statement
In February 2009, the Company issued U.S.$550 million (Cdn$684 million) of 5.55% Notes due 2019. The debt offering was made under the Company's currently effective shelf prospectus and registration statement, filed by the Company in December 2007 and expiring in January 2010. Accordingly, the amount registered for offering under the shelf prospectus and registration statement has been reduced to U.S.$1.3 billion. The Company used the net proceeds of U.S.$540 million (Cdn$672 million) from the offering to repay a portion of its then outstanding commercial paper and to reduce a portion of its accounts receivable securitization program.

Revolving credit facility
As at September 30, 2009, the Company had letters of credit drawn on its U.S.$1 billion revolving credit facility, expiring in October 2011, of $406 million ($181 million as at December 31, 2008). The Company did not have any outstanding borrowings under its commercial paper program. As at December 31, 2008, total borrowings under the Company's commercial paper program were $626 million, of which $256 million was denominated in Canadian dollars and $370 million was denominated in U.S. dollars (U.S.$303 million). The weighted-average interest rate on these borrowings was 2.42%.

Accounts receivable securitization
The Company has a five-year agreement, expiring in May 2011, to sell an undivided co-ownership interest in a revolving pool of freight receivables to an unrelated trust for maximum cash proceeds of $600 million. In the second quarter of 2009, the Company reduced the program limit from $600 million to $400 million until the end of 2009 to reflect the anticipated reduction in the use of the program.
Pursuant to the agreement, the Company sells an interest in its receivables and receives proceeds net of the required reserve as stipulated in the agreement. The required reserve represents an amount set aside to allow for possible credit losses and is recognized by the Company as retained interest and recorded in Other current assets in its Consolidated Balance Sheet. The eligible freight receivables as defined in the agreement may not include delinquent or defaulted receivables, or receivables that do not meet certain obligor-specific criteria, including concentrations in excess of prescribed limits with any one customer.
During 2009, proceeds from collections reinvested in the securitization program were approximately $144 million and purchases of previously transferred accounts receivable were approximately $4 million. At September 30, 2009, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is

generally limited to the receivables.

As at September 30, 2009, the Company had sold receivables that resulted in proceeds of $2 million under this program ($71 million at December 31, 2008), and recorded retained interest of approximately 10% of this amount in Other current assets (retained interest of approximately 10% recorded as at December 31, 2008). The fair value of the retained interest approximated carrying value as a result of the short collection cycle and negligible credit losses.

Share repurchase program

On July 20, 2009, the Company's 25.0 million share repurchase program expired. The Company repurchased a total of 6.1 million common shares since July 28, 2008, the inception of the program, for $331 million, at a weighted-average price of $54.42 per share. The Company did not repurchase any shares in 2009.

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 plans is provided in Note 11 – Stock plans, to the Company's 2008 Annual Consolidated Financial Statements. For the three and nine months ended September 30, 2009, the Company recorded total compensation expense for awards under all plans of $26 million and $66 million, respectively, and $16 million and $50 million, respectively, for the same periods in 2008. The total tax benefit recognized in income in relation to stock-based compensation expense for the three and nine months ended September 30, 2009 was $8 million and $19 million, respectively, and $5 million and $15 million, respectively, for the same periods in 2008.

Cash settled awards

Following approval by the Board of Directors in January 2009, the Company granted 0.9 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. As at September 30, 2009, 0.1 million RSUs remained authorized for future issuance under this plan.

The following table provides the 2009 activity for all cash settled awards:

	RSUs		Voluntary Incentive Deferral Plan (VIDP)	
In millions	Nonvested	Vested	Nonvested	Vested
Outstanding at December 31, 2008	1.3	0.9 (1)	0.1	1.8
Granted	0.9	-	-	0.1 (2)
Transferred into plan	-	-	-	0.1
Payout	-	(0.9)	-	(0.2)
Outstanding at September 30, 2009	2.2	-	0.1	1.8

(1) Includes 0.1 million of 2004 time-vested RSUs.
(2) Includes the Company's match and dividends earned on original deferred share units.

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)					Vision (1)	VIDP (2)	Total
Year of grant	2009	2008	2007	2006	2004	2005	2003 onwards	
Stock-based compensation expense (recovery) recognized over requisite service period								
Nine months ended September 30, 2009	$ 18	$ 4	$ 11	$ (2)	N/A	N/A	$ 24	$ 55
Nine months ended September 30, 2008	N/A	$ 11	$ 1	$ 14	$ 3	$ 2	$ 8	$ 39
Liability outstanding								
September 30, 2009	$ 18	$ 12	$ 20	$ -	$ -	N/A	$ 98	$ 148
December 31, 2008	N/A	$ 8	$ 9	$ 53	$ 3	$ -	$ 88	$ 161
Fair value per unit								
September 30, 2009 ($)	$ 41.39	$ 32.88	$ 36.45	N/A	N/A	N/A	$ 52.73	N/A
Fair value of awards vested during period								
Nine months ended September 30, 2009	$ -	$ -	$ -	N/A	N/A	N/A	$ 1	$ 1
Nine months ended September 30, 2008	N/A	$ -	$ -	$ -	$ -	$ -	$ 2	$ 2
Nonvested awards at September 30, 2009								
Unrecognized compensation cost	$ 13	$ 4	$ 1	N/A	N/A	N/A	$ 2	$ 20
Remaining recognition period (years)	2.25	1.25	0.25	N/A	N/A	N/A	3.25	N/A
Assumptions (3)								
Stock price ($)	$ 52.73	$ 52.73	$ 52.73	N/A	N/A	N/A	$ 52.73	N/A
Expected stock price volatility (4)	32%	36%	36%	N/A	N/A	N/A	N/A	N/A
Expected term (years) (5)	2.25	1.25	0.25	N/A	N/A	N/A	N/A	N/A
Risk-free interest rate (6)	1.42%	0.74%	0.22%	N/A	N/A	N/A	N/A	N/A
Dividend rate ($) (7)	$ 1.01	$ 1.01	$ 1.01	N/A	N/A	N/A	N/A	N/A

(1)

Compensation cost is based on the fair value of the awards at period-end using the lattice-based valuation model that uses the assumptions as presented herein.

(2) Compensation cost is based on intrinsic value.

(3) Assumptions used to determine fair value are at September 30, 2009.

(4) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award.

(5) Represents the remaining period of time that awards are expected to be outstanding.

(6) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the awards.

(7) Based on the annualized dividend rate.

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Stock option awards

Following approval by the Board of Directors in January 2009, the Company granted 1.2 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, 2009, 12.3 million common shares remained authorized for future issuances under this plan. The total number of options outstanding at September 30, 2009, including conventional and performance-accelerated options, was 9.7 million and 2.8 million, respectively.

The following table provides the activity of stock option awards in 2009. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on September 30, 2009 at the Company's closing stock price of $52.73.

	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, 2008 (1)	13.2	$ 29.05		
Granted	1.2	$ 42.13		
Exercised	(1.9)	$ 19.14		
Outstanding at September 30, 2009 (1)	12.5	$ 30.27	4.4	$ 281
Exercisable at September 30, 2009 (1)	9.9	$ 26.53	3.4	$ 261

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

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

In millions, unless otherwise indicated Year of grant	2009	2008	2007	2006	2005	Total
Stock-based compensation expense recognized over requisite service period (1)						
Nine months ended September 30, 2009	$ 8	$ 1	$ 1	$ 1	$ -	$ 11
Nine months ended September 30, 2008	N/A	$ 5	$ 2	$ 2	$ 2	$ 11
Fair value per unit						
At grant date ($)	$ 12.60	$ 12.44	$ 13.36	$ 13.80	$ 9.19	N/A
Fair value of awards vested during period						
Nine months ended September 30, 2009	$ -	$ 3	$ 3	$ 3	$ 3	$ 12
Nine months ended September 30, 2008	N/A	$ -	$ 3	$ 3	$ 3	$ 9
Nonvested awards at September 30, 2009						
Unrecognized compensation cost	$ 7	$ 3	$ 2	$ 1	$ -	$ 13
Remaining recognition period (years)	3.3	2.3	1.3	0.3	-	N/A
Assumptions						
Grant price ($)	$ 42.13	$ 48.51	$ 52.79	$ 51.51	$ 36.33	N/A
Expected stock price volatility (2)	39%	27%	24%	25%	25%	N/A
Expected term (years) (3)	5.3	5.3	5.2	5.2	5.2	N/A
Risk-free interest rate (4)	1.97%	3.58%	4.12%	4.04%	3.50%	N/A
Dividend rate ($) (5)	$ 1.01	$ 0.92	$ 0.84	$ 0.65	$ 0.50	N/A

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

(2) Based on the average of the historical volatility of the Company's stock over a period commensurate with the expected term of the award and the implied volatility from traded options on the Company's stock.

(3)

Represents the period of time that awards are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination, and groups of employees that have similar historical exercise behavior are considered separately.

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

(5) Based on the annualized dividend rate.

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Note 6 - Pensions and other postretirement benefits

For the three and nine months ended September 30, 2009 and 2008, the components of net periodic benefit cost (income) for pensions and other postretirement benefits were as follows:

(a) Components of net periodic benefit income for pensions

	Three months ended September 30		Nine months ended September 30	
In millions	2009	2008	2009	2008
Service cost	$ 21	$ 34	$ 65	$ 104
Interest cost	222	200	665	600
Expected return on plan assets	(252)	(251)	(756)	(753)
Amortization of prior service cost	-	5	-	15
Recognized net actuarial loss	1	-	4	-
Net periodic benefit (income)	$ (8)	$ (12)	$ (22)	$ (34)

(b) Components of net periodic benefit cost for other postretirement benefits

	Three months ended September 30		Nine months ended September 30	
In millions	2009	2008	2009	2008
Service cost	$ -	$ 1	$ 2	$ 3
Interest cost	4	4	12	12
Curtailment gain	-	(4)	(3)	(7)
Amortization of prior service cost	1	1	2	3
Recognized net actuarial gain	(1)	-	(3)	(2)
Net periodic benefit cost	$ 4	$ 2	$ 10	$ 9

In 2009, the Company expects to make total contributions of approximately $130 million for all its defined benefit plans, of which $85 million was disbursed as at September 30, 2009.

Note 7 – Income taxes

In 2009, the Company recorded a deferred income tax recovery of $58 million in the Consolidated Statement of Income. Of this amount, $15 million, recorded in the third quarter, resulted from the resolution of various income tax matters and adjustments related to tax filings of prior years; $12 million and $15 million, recorded in the second and first quarters, respectively, resulted from the enactment of lower provincial corporate income tax rates; and $16 million recorded in the second quarter resulted from the recapitalization of a foreign investment.

In 2008, the Company recorded a deferred income tax recovery of $75 million in the Consolidated Statement of Income. Of this amount, $41 million, recorded in the third quarter, resulted from the resolution of various income tax matters and adjustments related to tax filings of prior years; $23 million, recorded in the second quarter, was due to the enactment of lower provincial corporate income tax rates; and $11 million, recorded in the first quart