CANADIAN NATIONAL RAILWAY CO
Form 6-K
February 01, 2013

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

Report of Foreign Issuer

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

For the month of February 2013

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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Management's Report on Internal Control over Financial Reporting

Item 1

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2012.

KPMG LLP, an independent registered public accounting firm, has issued an unqualified audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 and has also expressed an unqualified audit opinion on the Company's 2012 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 1, 2013.

(s) Claude Mongeau
President and Chief Executive Officer

February 1, 2013

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

February 1, 2013

Report of Independent Registered Public Accounting Firm

Item 2
To the Shareholders and Board of Directors of the Canadian National Railway Company

We have audited the accompanying consolidated balance sheets of the Canadian National Railway Company (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2012 and 2011, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 1, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(s) KPMG LLP*

Montreal, Canada
February 1, 2013

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Report of Independent Registered Public Accounting Firm

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

We have audited the Canadian National Railway Company's (the "Company") internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 1, 2013 expressed an unqualified opinion on those consolidated financial statements.

(s) KPMG LLP*

Montreal, Canada
February 1, 2013

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

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KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Income U.S. GAAP

Item 3

In millions, except per share data	Year ended December 31,		2012		2011		2010
Revenues		$	9,920	$	9,028	$	8,297
Operating expenses							
Labor and fringe benefits			1,952		1,812		1,744
Purchased services and material			1,248		1,120		1,036
Fuel			1,524		1,412		1,048
Depreciation and amortization			924		884		834
Equipment rents			249		228		243
Casualty and other			338		276		368
Total operating expenses			6,235		5,732		5,273
Operating income			3,685		3,296		3,024
Interest expense			(342)		(341)		(360)
Other income (Note 12)			315		401		212
Income before income taxes			3,658		3,356		2,876
Income tax expense (Note 13)			(978)		(899)		(772)
Net income		$	2,680	$	2,457	$	2,104
Earnings per share (Note 15)							
Basic		$	6.15	$	5.45	$	4.51
Diluted		$	6.12	$	5.41	$	4.48
Weighted-average number of shares							
Basic			435.6		451.1		466.3
Diluted			437.7		454.4		470.1

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Comprehensive Income U.S. GAAP

In millions Year ended December 31,	2012	2011	2010
Net income	$ 2,680	$ 2,457	$ 2,104
Other comprehensive income (loss) (Note 18)			
Foreign exchange gain (loss) on:			
Translation of the net investment in foreign operations	(128)	130	(330)
Translation of US dollar-denominated long-term debt designated as			
a hedge of the net investment in U.S. subsidiaries	123	(122)	315
Pension and other postretirement benefit plans (Note 11):			
Net actuarial loss arising during the year	(660)	(1,541)	(931)
Prior service cost arising during the year	(6)	(28)	(5)
Amortization of net actuarial loss included in net periodic benefit cost (income)	119	8	1
Amortization of prior service cost included in net periodic benefit cost (income)	7	4	2
Derivative instruments (Note 17)	-	(2)	(1)
Other comprehensive loss before income taxes	(545)	(1,551)	(949)
Income tax recovery	127	421	188
Other comprehensive loss	(418)	(1,130)	(761)
Comprehensive income	$ 2,262	$ 1,327	$ 1,343

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet U.S. GAAP

In millions December 31,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 155	$ 101
Restricted cash and cash equivalents (Note 8)	521	499
Accounts receivable (Note 3)	831	820
Material and supplies	230	201
Deferred and receivable income taxes (Note 13)	43	122
Other	89	105
Total current assets	1,869	1,848
Properties (Note 4)	24,541	23,917
Intangible and other assets (Note 5)	249	261
Total assets	$ 26,659	$ 26,026
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other (Note 6)	$ 1,626	$ 1,580
Current portion of long-term debt (Note 8)	577	135
Total current liabilities	2,203	1,715
Deferred income taxes (Note 13)	5,555	5,333
Pension and other postretirement benefits, net of current portion (Note 11)	784	1,095
Other liabilities and deferred credits (Note 7)	776	762
Long-term debt (Note 8)	6,323	6,441
Shareholders' equity		
Common shares (Note 9)	4,108	4,141
Accumulated other comprehensive loss (Note 18)	(3,257)	(2,839)
Retained earnings	10,167	9,378
Total shareholders' equity	11,018	10,680
Total liabilities and shareholders' equity	$ 26,659	$ 26,026

On behalf of the Board:

David G. A. McLean	Claude Mongeau
Director	Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity U.S. GAAP

In millions	Issued and outstanding common shares	Common shares	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balances at December 31, 2009	471.0	$ 4,266	$ (948)	$ 7,915	$ 11,233
Net income	-	-	-	2,104	2,104
Stock options exercised and other (Notes 9, 10)	3.4	124	-	-	124
Share repurchase program (Note 9)	(15.0)	(138)	-	(775)	(913)
Other comprehensive loss (Note 18)	-	-	(761)	-	(761)
Dividends ($1.08 per share)	-	-	-	(503)	(503)
Balances at December 31, 2010	459.4	4,252	(1,709)	8,741	11,284
Net income	-	-	-	2,457	2,457
Stock options exercised and other (Notes 9, 10)	2.6	74	-	-	74
Share repurchase programs (Note 9)	(19.9)	(185)	-	(1,235)	(1,420)
Other comprehensive loss (Note 18)	-	-	(1,130)	-	(1,130)
Dividends ($1.30 per share)	-	-	-	(585)	(585)
Balances at December 31, 2011	442.1	4,141	(2,839)	9,378	10,680
Net income	-	-	-	2,680	2,680
Stock options exercised and other (Notes 9, 10)	3.2	128	-	-	128
Share repurchase programs (Note 9)	(16.9)	(161)	-	(1,239)	(1,400)
Other comprehensive loss (Note 18)	-	-	(418)	-	(418)
Dividends ($1.50 per share)	-	-	-	(652)	(652)
Balances at December 31, 2012	428.4	$ 4,108	$ (3,257)	$ 10,167	$ 11,018

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows U.S. GAAP

In millions December 31,	Year ended 2012	2011	2010
Operating activities			
Net income	$ 2,680	$ 2,457	$ 2,104
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	924	884	834
Deferred income taxes (Note 13)	451	531	418
Gain on disposal of property (Notes 4, 12)	(281)	(348)	(152)
Changes in operating assets and liabilities:			
Accounts receivable	(20)	(51)	(3)
Material and supplies	(30)	11	(43)
Accounts payable and other	129	34	285
Other current assets	(13)	(2)	13
Pensions and other, net	(780)	(540)	(457)
Net cash provided by operating activities	3,060	2,976	2,999
Investing activities			
Property additions	(1,731)	(1,625)	(1,586)
Disposal of property (Note 4)	311	369	168
Change in restricted cash and cash equivalents	(22)	(499)	-
Other, net	21	26	35
Net cash used in investing activities	(1,421)	(1,729)	(1,383)
Financing activities			
Issuance of debt	2,354	1,361	-
Repayment of debt	(2,001)	(1,083)	(184)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized (Note 10)	117	77	115
Repurchase of common shares (Note 9)	(1,400)	(1,420)	(913)
Dividends paid	(652)	(585)	(503)
Net cash used in financing activities	(1,582)	(1,650)	(1,485)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents	(3)	14	7
Net increase (decrease) in cash and cash equivalents	54	(389)	138
Cash and cash equivalents, beginning of year	101	490	352
Cash and cash equivalents, end of year	$ 155	$ 101	$ 490
Supplemental cash flow information			

Net cash receipts from customers and other	$ 9,877	$ 8,995	$ 8,404
Net cash payments for:			
Employee services, suppliers and other expenses	(5,241)	(4,643)	(4,334)
Interest	(364)	(329)	(366)
Personal injury and other claims (Note 16)	(79)	(97)	(64)
Pensions (Note 11)	(844)	(468)	(427)
Income taxes (Note 13)	(289)	(482)	(214)
Net cash provided by operating activities	$ 3,060	$ 2,976	$ 2,999

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements U.S. GAAP

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

1 – Summary of significant accounting policies

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

A. Principles of consolidation

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

B. Revenues

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

C. Foreign currency

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

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

D. Cash and cash equivalents

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

E. Restricted cash and cash equivalents

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

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

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

H. Properties
Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. Labor, materials and other costs associated with the installation of rail, ties, ballast and other structures are capitalized to the extent they meet the Company's capitalization criteria. Major overhauls and large refurbishments of equipment are also capitalized when they result in an extension to the service life or increase the functionality of the asset. Repair and maintenance costs are expensed as incurred.
The cost of properties, including those under capital leases, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated service lives, measured in years, except for rail which is measured in millions of gross tons per mile. The Company follows the group method of depreciation whereby a single composite depreciation rate is applied to the gross investment in a class of similar assets, despite small differences in the service life or salvage value of individual property units within the same asset class.
In accordance with the group method of depreciation, upon sale or retirement of properties in the normal course of business, cost less net salvage value is charged to accumulated depreciation. As a result, no gain or loss is recognized in income under the group method as it is assumed that the assets within the group on average have the same life and characteristics and therefore that gains or losses offset over time. For retirements of depreciable properties that do not occur in the normal course of business, a gain or loss may be recognized if the retirement varies significantly from the retirement pattern identified through depreciation studies. A gain or loss is recognized in Other income for the sale of land or disposal of assets that are not part of railroad operations.
Assets held for sale are measured at the lower of their carrying amount or fair value, less cost to sell. Losses resulting from significant rail line sales are recognized in income when the asset meets the criteria for classification as held for sale, whereas losses resulting from significant rail line abandonments are recognized in the Consolidated Statement of Income when the asset ceases to be used. Gains are recognized in income when they are realized.
The Company reviews the carrying amounts of properties held and used whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

I. Intangible assets
Intangible assets consist mainly of customer contracts and relationships assumed through past acquisitions and are being amortized on a straight-line basis over 40 to 50 years.
The Company reviews the carrying amounts of intangible assets held and used whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

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

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

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

K. Postretirement benefits other than pensions

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

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

L. Personal injury and other claims

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

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

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

M. Environmental expenditures

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

N. Income taxes

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

O. Derivative financial instruments

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

P. Stock-based compensation

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

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

2 – Accounting changes

The Company adopts accounting standards that are issued by the Financial Accounting Standards Board (FASB), if applicable. For the years 2012, 2011 and 2010, there were no accounting standard updates issued by FASB that had a significant impact on the Company's consolidated financial statements, except as noted below.

In June 2011, the 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 re-evaluating the requirements, with a final decision expected in the first quarter of 2013. The Company has adopted the currently effective requirements of these ASUs.

3 – Accounts receivable

In millions	December 31,	2012	2011
Freight		$ 674	$ 630
Non-freight		167	206
Gross accounts receivable		841	836
Allowance for doubtful accounts		(10)	(16)
Net accounts receivable		$ 831	$ 820

4 – Properties

In millions		December 31, 2012			December 31, 2011		
	Depreciation rate	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway (1)	2%	$ 26,209	$ 6,948	$ 19,261	$ 25,534	$ 6,903	$ 18,631
Rolling stock	4%	4,989	1,785	3,204	4,923	1,668	3,255
Buildings	2%	1,275	492	783	1,220	473	747
Information technology (2)	12%	976	427	549	931	383	548
Other	6%	1,273	529	744	1,213	477	736
Total properties including capital leases		$ 34,722	$ 10,181	$ 24,541	$ 33,821	$ 9,904	$ 23,917

Capital leases included in properties

Track and roadway (3)	$ 417	$ 53	$ 364	$ 417	$ 48	$ 369
Rolling stock	1,222	353	869	1,144	317	827
Buildings	109	18	91	109	16	93
Other	91	17	74	102	15	87
Total capital leases included in properties	$ 1,839	$ 441	$ 1,398	$ 1,772	$ 396	$ 1,376

(1) Includes the cost of land of $1,766 million and $1,798 million as at December 31, 2012 and December 31, 2011, respectively.

(2) The Company capitalized $93 million in 2012 and $94 million in 2011 of internally developed software costs pursuant to FASB Accounting Standards Codification 350-40, “Intangibles – Goodwill and Other, Internal – Use Software.”

(3) Includes $108 million of right-of-way access in both years.

Accounting policy for capitalization of costs

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

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

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

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

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

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

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

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

Accounting policy for depreciation

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

For all depreciable assets, the depreciation rate is based on the estimated service lives of the assets. Assessing the reasonableness of the estimated service lives of properties requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. The Company's U.S. properties are subject to comprehensive depreciation studies as required by the Surface Transportation Board (STB) and are conducted by external experts. Depreciation studies for Canadian properties are not required by

regulation and are therefore conducted internally. Studies are performed on specific asset groups on a periodic basis. Changes in the estimated service lives of the assets and their related composite depreciation rates are implemented prospectively.

For the rail asset, the estimated service life is measured in millions of gross tons per mile and varies based on rail characteristics such as weight, curvature and metallurgy. The annual composite depreciation rate for rail assets is determined by dividing the estimated annual number of gross tons carried over the rail by the estimated service life of the rail measured in millions of gross tons per mile. For the rail asset, the Company capitalizes the costs of rail grinding which consists of restoring and improving the rail profile and removing irregularities from worn rail to extend the service life. The service life of the rail asset is based on expected future usage of the rail in its existing condition, determined using railroad industry research and testing, less the rail asset's usage to date. The service life of the rail asset is increased incrementally as rail grinding is performed thereon. As such, the costs incurred for rail grinding are capitalized given that the activity extends the service life of the rail asset beyond its original or current condition as additional gross tons can be carried over the rail for its remaining service life. The Company amortizes the cost of rail grinding over the remaining life of the rail asset, which includes the incremental life extension generated by the rail grinding.

Disposal of property

2012

Bala-Oakville

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

2011

IC RailMarine

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

Lakeshore East

On March 24, 2011, the Company entered into an agreement with Metrolinx to sell a segment of the Kingston subdivision known as the Lakeshore East in Pickering and Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Lakeshore East"), for cash proceeds of $299 million before transaction costs. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Lakeshore East at its then current level of operating activity, with the possibility of increasing its operating activity for additional consideration. The transaction resulted in a gain on disposal of $288 million ($254 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

2010

Oakville subdivision

On March 29, 2010, the Company entered into an agreement with Metrolinx to sell a portion of the property known as the Oakville subdivision in Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Oakville subdivision"), for proceeds of $168 million before transaction costs, of which $24 million was placed in escrow at the time of disposal and was entirely released by December 31, 2010 in accordance with the terms of the agreement. Under the agreement, the Company obtained the perpetual right to operate freight trains over the Oakville subdivision 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 $152 million ($131 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

5 – Intangible and other assets

In millions	December 31,	2012	2011
Deferred and long-term receivables		$ 87	$ 98
Intangible assets (A)		57	54
Investments (B)		30	31
Other		75	78
Total intangible and other assets		$ 249	$ 261

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

B. Investments
As at December 31, 2012, the Company had $20 million ($21 million as at December 31, 2011) of investments accounted for under the equity method and $10 million ($10 million as at December 31, 2011) of investments accounted for under the cost method.

6 – Accounts payable and other

In millions	December 31,	2012	2011
Trade payables		$ 386	$ 445
Payroll-related accruals		340	343
Income and other taxes		294	130
Accrued charges		135	121
Accrued interest		105	123
Stock-based incentives liability (Note 10)		88	84
Personal injury and other claims provisions (Note 16)		82	84
Environmental provisions (Note 16)		31	63
Other postretirement benefits liability (Note 11)		17	18
Other		148	169
Total accounts payable and other		$ 1,626	$ 1,580

7 – Other liabilities and deferred credits

In millions	December 31,	2012	2011
Personal injury and other claims provisions, net of current portion (Note 16)		$ 232	$ 226
Stock-based incentives liability, net of current portion (Note 10)		203	180
Environmental provisions, net of current portion (Note 16)		92	89
Deferred credits and other		249	267
Total other liabilities and deferred credits		$ 776	$ 762

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Notes to Consolidated Financial Statements U.S. GAAP

8 – Long-term debt

In millions		Maturity	Outstanding US dollar-denominated amount	December 31, 2012	2011
Debentures and notes: (A)					
Canadian National series:					
4.40%	10-year notes (B)	Mar. 15, 2013	$ 400	$ 398	$ 407
4.95%	6-year notes (B)	Jan. 15, 2014	325	323	331
5.80%	10-year notes (B)	June 1, 2016	250	249	254
1.45%	5-year notes (B)	Dec. 15, 2016	300	298	305
5.85%	10-year notes (B)	Nov. 15, 2017	250	249	254
5.55%	10-year notes (B)	May 15, 2018	325	323	331
6.80%	20-year notes (B)	July 15, 2018	200	199	203
5.55%	10-year notes (B)	Mar. 1, 2019	550	547	559
2.85%	10-year notes (B)	Dec. 15, 2021	400	398	407
2.25%	10-year notes (B)	Nov. 15, 2022	250	249	-
7.63%	30-year debentures	May 15, 2023	150	149	153
6.90%	30-year notes (B)	July 15, 2028	475	473	483
7.38%	30-year debentures (B)	Oct. 15, 2031	200	199	203
6.25%	30-year notes (B)	Aug. 1, 2034	500	498	509
6.20%	30-year notes (B)	June 1, 2036	450	448	458
6.71%	Puttable Reset Securities PURSSM (B)	July 15, 2036	250	249	254
6.38%	30-year debentures (B)	Nov. 15, 2037	300	298	305
3.50%	30-year notes (B)	Nov. 15, 2042	250	249	-
Illinois Central series:					
5.00%	99-year income debentures	Dec. 1, 2056	7	7	7
7.70%	100-year debentures	Sep. 15, 2096	125	124	127
Total US dollar-denominated debentures and notes			$ 5,957	5,927	5,550
BC Rail series:					
Non-interest bearing 90-year subordinated notes (C)		July 14, 2094		842	842
Total debentures and notes				6,769	6,392
Other:					
Commercial paper (F) (G)				-	82
Capital lease obligations and other (D)				985	957
Total debt, gross				7,754	7,431
Less:					
Net unamortized discount				854	855
Total debt (E) (1)				6,900	6,576
Less:					
Current portion of long-term debt (E)				577	135

Total long-term debt	$ 6,323	$ 6,441

(1) See Note 17 - Financial instruments, for the fair value of debt.

A. The Company's debentures, notes and revolving credit facility are unsecured.

B. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

C. The Company records these notes as a discounted debt of $8 million, using an imputed interest rate of 5.75%. The discount of $834 million is included in the net unamortized discount.

D. During 2012, the Company recorded $94 million in assets it acquired through equipment leases ($87 million in 2011), for which an equivalent amount was recorded in debt.
Interest rates for capital lease obligations range from approximately 0.7% to 8.5% with maturity dates in the years 2013 through 2037. The imputed interest on these leases amounted to $249 million as at December 31, 2012 and $299 million as at December 31, 2011.
The capital lease obligations are secured by properties with a net carrying amount of $1,021 million as at December 31, 2012 and $993 million as at December 31, 2011.

E. Long-term debt maturities, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2012, for the next five years and thereafter, are as follows:

In millions	Capital leases	Debt	Total
2013 (1)	$ 179	$ 398	$ 577
2014	208	320	528
2015	81	-	81
2016	268	545	813
2017	133	246	379
2018 and thereafter	114	4,408	4,522
	$ 983	$ 5,917	$ 6,900

(1) Current portion of long-term debt.

F. On May 6, 2011, the Company entered into a $800 million four-year revolving credit facility agreement with a consortium of lenders. On March 23, 2012, the agreement was amended to extend the term to May 5, 2017. The agreement allows for an increase 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 credit facility, containing customary terms and conditions, is available for general corporate purposes, including back-stopping the Company's commercial paper program, and provides for borrowings at various interest rates, including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate, plus applicable margins. The credit facility agreement has one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance. As at December 31, 2012 and December 31, 2011, the Company had no outstanding borrowings under its revolving credit facility.

G. The Company has a commercial paper program, which is backed by its revolving credit facility, enabling it to issue commercial paper up to a maximum aggregate principal amount of $800 million, or the US dollar equivalent. As at December 31, 2012, the Company had no borrowings of commercial paper ($82 million (US$81 million) at a weighted-average interest rate of 0.20% as at December 31, 2011) presented in Current portion of long-term debt on

the Consolidated Balance Sheet.

H. The aggregate amount of debt payable in US currency as at December 31, 2012 was US$6,690 million (C$6,656 million), including US$733 million relating to capital leases and other, and US$6,295 million (C$6,402 million), including US$757 million relating to capital leases and other, as at December 31, 2011.

I. On April 29, 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. On March 23, 2012, the agreements were amended to extend the maturity by one year to April 28, 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 December 31, 2012, the Company had letters of credit drawn of $551 million ($499 million as at December 31, 2011) from a total committed amount of $562 million ($520 million as at December 31, 2011) with the various banks. As at December 31, 2012, cash and cash equivalents of $521 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.

9 – Capital stock

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

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

B. Issued and outstanding common shares

The following table provides the activity of the issued and outstanding common shares of the Company for the years ended December 31, 2012, 2011 and 2010:

In millions	Year ended December 31,	2012	2011	2010
Issued and outstanding common shares at beginning of year		442.1	459.4	471.0
Number of shares repurchased through buyback programs		(16.9)	(19.9)	(15.0)
Stock options exercised		3.2	2.6	3.4
Issued and outstanding common shares at end of year		428.4	442.1	459.4

Share repurchase programs

On October 24, 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.

On October 22, 2012, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to $1.4 billion in common shares, not to exceed 18.0 million common shares, between October 29, 2012 and October 28, 2013 pursuant to a normal course issuer bid at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange.

The following table provides the activities under such share repurchase programs, as well as the share repurchase programs of the prior years:

In millions, except per share data	Year ended December 31,	2012	2011	2010
Number of common shares (1)		16.9	19.9	15.0
Weighted-average price per share (2)		$ 82.73	$ 71.33	$ 60.86
Amount of repurchase		$ 1,400	$ 1,420	$ 913

(1) Includes common shares purchased in the first and fourth quarters of 2012 and 2011 and in the second and third quarters of 2010 pursuant to private agreements between the Company and arm's-length third-party sellers.

(2) Includes brokerage fees.

10 – Stock plans

The Company has various stock-based incentive plans for eligible employees. A description of the Company's major plans is provided below:

A. Employee Share Investment Plan

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

The following table provides the number of participants holding shares, the total number of ESIP shares purchased on behalf of employees, including the Company's contributions, as well as the resulting expense recorded for the years ended December 31, 2012, 2011 and 2010:

Year ended December 31,	2012	2011	2010
Number of participants holding shares	17,423	16,218	14,997
Total number of ESIP shares purchased on behalf of employees (millions)	1.3	1.3	1.3
Expense for Company contribution (millions)	$ 24	$ 21	$ 19

B. Stock-based compensation plans

The following table provides the total stock-based compensation expense for awards under all plans, as well as the related tax benefit recognized in income, for the years ended December 31, 2012, 2011 and 2010:

In millions — Year ended December 31,	2012	2011	2010
Cash settled awards			
Restricted share unit plan	$ 76	$ 81	$ 77
Voluntary Incentive Deferral Plan	19	21	18
	95	102	95
Stock option awards	10	10	9
Total stock-based compensation expense	$ 105	$ 112	$ 104
Tax benefit recognized in income	$ 25	$ 24	$ 27

(i) Cash settled awards

Restricted share units

In 2012, 2011 and 2010, the Company granted 0.5 million restricted share units (RSUs), respectively, to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted are generally scheduled for payout after three years ("plan period") and vest conditionally upon the attainment of a target relating to return on invested capital (ROIC) over the plan period. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 150% depending on the level of ROIC attained. Payout is conditional upon the attainment of a minimum share price, calculated using the average of the last three months of the plan period. In addition, commencing at various dates, for senior and executive management employees ("executive employees"), payout for RSUs is also conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation and non-disclosure of

confidential information conditions. Current or former executive employees who breach such conditions of their benefit plans, award or employment agreements will forfeit the 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 agreement, 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.

The value of the payout is equal to the number of RSUs awarded multiplied by the performance vesting factor and by the 20-day average closing share price ending on January 31 of the following year. On December 31, 2012, for the 2010 grant, the level of ROIC attained resulted in a performance vesting factor of 150%. As the minimum share price condition was met, payout under the plan of approximately $70 million, calculated using the Company's average share price during the 20-day period ending on January 31, 2013, will be paid to employees meeting the conditions of their benefit plans, award or employment agreements in the first quarter of 2013.

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 16 – Major commitments and contingencies.

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

Voluntary Incentive Deferral Plan

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

The following table provides the 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)	-	-
Vested during year	(0.5)	0.5	-	-
Outstanding at December 31, 2012	0.9	0.7 (1)	-	1.4

(1) Includes the units of the RSU payout currently in dispute. See Note 16 - Major commitments and contingencies.

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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	2008		
Stock-based compensation expense recognized over requisite service period							
Year ended December 31, 2012	$ 24	$ 26	$ 26	$ -	N/A	$ 19	$ 95
Year ended December 31, 2011	N/A	$ 19	$ 27	$ 35	$ -	$ 21	$ 102
Year ended December 31, 2010	N/A	N/A	$ 17	$ 34	$ 26	$ 18	$ 95
Liability outstanding							
December 31, 2012	$ 24	$ 45	$ 70	$ 18 (3)	N/A	$ 134	$ 291
December 31, 2011	N/A	$ 19	$ 44	$ 82	N/A	$ 119	$ 264
Fair value per unit							
December 31, 2012 ($)	$ 67.90	$ 88.05	$ 90.33	N/A	N/A	$ 90.33	N/A
Fair value of awards vested during the year							
Year ended December 31, 2012	$ -	$ -	$ 70	N/A	N/A	$ 1	$ 71
Year ended December 31, 2011	N/A	$ -	$ -	$ 82	N/A	$ 1	$ 83
Year ended December 31, 2010	N/A	N/A	$ -	$ -	$ 37	$ 1	$ 38
Nonvested awards at December 31, 2012							
Unrecognized compensation cost	$ 21	$ 14	$ -	N/A	N/A	$ 1	$ 36
Remaining recognition period (years)	2.0	1.0	N/A	N/A	N/A	N/A (4)	N/A
Assumptions (5)							
Stock price ($)	$ 90.33	$ 90.33	$ 90.33	N/A	N/A	$ 90.33	N/A
Expected stock price volatility (6)	16%	13%	N/A	N/A	N/A	N/A	N/A
Expected term (years) (7)	2.0	1.0	N/A	N/A	N/A	N/A	N/A

Risk-free interest rate (8)	1.13%	1.09%	N/A	N/A	N/A	N/A	N/A
Dividend rate ($) (9)	$ 1.50	$ 1.50	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) Consists of the carrying value of the RSU payout currently in dispute. See Note 16 - Major commitments and contingencies.
(4) The remaining recognition period has not been quantified as it relates solely to the 25% Company grant and the dividends earned thereon, representing a minimal number of units.
(5) Assumptions used to determine fair value are at December 31, 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.

(ii) Stock option awards

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options 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 December 31, 2012, 10.4 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time; and performance-accelerated stock options. As at December 31, 2012, the performance-accelerated stock options were fully vested.

For 2012, 2011 and 2010, the Company granted 0.6 million, 0.6 million and 0.7 million, respectively, of conventional stock options to designated senior management employees that vest over a period of four years of continuous employment.

The total number of options outstanding at December 31, 2012, for conventional and performance-accelerated options was 4.1 million and 0.2 million, respectively.

The following table provides the activity of stock option awards during 2012, and for options outstanding and exercisable at December 31, 2012, the weighted-average exercise price:

	Options outstanding		Nonvested options	
	Number of of options	Weighted-average exercise price	Number of options	Weighted-average grant date fair value
	In millions		In millions	
Outstanding at December 31, 2011 (1)	6.9	$ 40.80	2.0	$ 13.71
Granted	0.6	$ 76.70	0.6	$ 15.49
Exercised	(3.2)	$ 31.38	N/A	N/A
Vested	N/A	N/A	(0.8)	$ 13.24
Outstanding at December 31, 2012 (1)	4.3	$ 52.09	1.8	$ 14.56
Exercisable at December 31, 2012 (1)	2.5	$ 44.82	N/A	N/A

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

The following table provides the number of stock options outstanding and exercisable as at December 31, 2012 by range of exercise price and their related intrinsic value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the value that would have been received by option holders had they exercised their options on December 31, 2012 at the Company's closing stock price of $90.33.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Aggregate intrinsic value	Number of options	Weighted-average exercise price	Aggregate intrinsic value
	In millions			In millions	In millions		In millions
$ 20.42 - $ 34.00	0.7	3.6	$ 29.21	$ 40	0.5	$ 27.54	$ 31
$ 34.01 - $ 44.05	0.6	4.5	$ 39.74	28	0.4	$ 39.28	23
$ 44.06 - $ 51.85	1.3	5.2	$ 48.93	55	1.1	$ 48.53	45
$ 51.86 - $ 68.95	0.7	6.4	$ 58.58	22	0.4	$ 55.46	14
$ 68.96 - $ 88.75	1.0	8.7	$ 73.35	17	0.1	$ 69.12	2
Balance at December 31, 2012 (1)	4.3	5.9	$ 52.09	$ 162	2.5	$ 44.82	$ 115

(1) Stock options with a US dollar exercise price have been translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date. As at December 31, 2012, all stock options outstanding were in-the-money. The weighted-average years to expiration of exercisable stock options was 4.5 years.

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	2006	Total
Stock-based compensation expense recognized over requisite service period (1)								
Year ended December 31, 2012	$ 4	$ 2	$ 2	$ 2	$ -	N/A	N/A	$ 10
Year ended December 31, 2011	N/A	$ 5	$ 2	$ 2	$ 1	$ -	N/A	$ 10
Year ended December 31, 2010	N/A	N/A	$ 4	$ 2	$ 2	$ 1	$ -	$ 9
Fair value per unit								
At grant date ($)	$ 15.49	$ 13.66	$ 13.09	$ 12.60	$ 12.44	$ 13.37	$ 13.80	N/A

Fair value of awards vested during the year