CANADIAN NATIONAL RAILWAY CO
Form 6-K
February 08, 2010

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, 2010

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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Item1

Management's Report on Internal Control over Financial Reporting

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, 2009 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, 2009.

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, 2009 and has also expressed an unqualified opinion on the Company's 2009 consolidated financial statements as stated in their Reports of Independent Registered Public Accounting Firm dated February 5, 2010.

(s) Claude Mongeau

President and Chief Executive Officer

February 5, 2010

(s) Luc Jobin

Executive Vice-President and Chief Financial Officer

February 5, 2010

Item 2
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders 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, 2009 and 2008, 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, 2009. 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 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 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 financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with generally accepted accounting principles in the United States.

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, 2009, 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 5, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(s) KPMG LLP*
Chartered Accountants

Montreal, Canada
February 5, 2010

* CA Auditor permit no. 23443

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 Board of Directors and Shareholders 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, 2009, based on the 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, 2009, 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 with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008, 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, 2009, and our report dated February 5, 2010 expressed an unqualified opinion on those consolidated financial statements.

(s) KPMG LLP*
Chartered Accountants
Montreal, Canada
February 5, 2010

*CA Auditor permit no. 23443

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.

Item 3
Consolidated Statement of Income U.S. GAAP

In millions, except per share data	Year ended December 31,		2009		2008		2007
Revenues		$	7,367	$	8,482	$	7,897
Operating expenses							
Labor and fringe benefits			1,696		1,674		1,701
Purchased services and material			1,027		1,137		1,045
Fuel			769		1,403		1,026
Depreciation and amortization			790		725		677
Equipment rents			284		262		247
Casualty and other			395		387		325
Total operating expenses			4,961		5,588		5,021
Operating income			2,406		2,894		2,876
Interest expense			(412)		(375)		(336)
Other income (Note 13)			267		26		166
Income before income taxes			2,261		2,545		2,706
Income tax expense (Note 14)			(407)		(650)		(548)
Net income		$	1,854	$	1,895	$	2,158
Earnings per share (Note 16)							
Basic		$	3.95	$	3.99	$	4.31
Diluted		$	3.92	$	3.95	$	4.25
Weighted-average number of shares							
Basic			469.2		474.7		501.2
Diluted			473.5		480.0		508.0

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income U.S. GAAP

In millions	Year ended December 31,	2009	2008	2007
Net income		$1,854	$ 1,895	$ 2,158
Other comprehensive income (loss) (Note 19)				
Unrealized foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations		(998)	1,259	(1,004)
Translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries		976	(1,266)	788
Pension and other postretirement benefit plans (Note 12):				
Net actuarial gain (loss) arising during the year		(868)	(452)	391
Prior service cost arising during the year		(2)	(3)	(12)
Amortization of net actuarial loss (gain) included in net periodic benefit cost (income)		2	(2)	49
Amortization of prior service cost included in net periodic benefit cost (income)		5	21	21
Derivative instruments (Note 18)		-	-	(1)
Other comprehensive income (loss) before income taxes		(885)	(443)	232
Income tax recovery (expense)		92	319	(219)
Other comprehensive income (loss)		(793)	(124)	13
Comprehensive income		$1,061	$ 1,771	$ 2,171

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet U.S. GAAP

In millions	December 31,	2009	2008
Assets			
Current assets			
Cash and cash equivalents		$ 352	$ 413
Accounts receivable (Note 4)		797	913
Material and supplies		170	200
Deferred income taxes (Note 14)		105	98
Other		66	132
		1,490	1,756
Properties (Note 5)		22,630	23,203
Intangible and other assets (Note 6)		1,056	1,761
Total assets		$ 25,176	$ 26,720
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and other (Note 7)		$ 1,167	$ 1,386
Current portion of long-term debt (Note 9)		70	506
		1,237	1,892
Deferred income taxes (Note 14)		5,119	5,511
Other liabilities and deferred credits (Note 8)		1,196	1,353
Long-term debt (Note 9)		6,391	7,405
Shareholders' equity			
Common shares (Note 10)		4,266	4,179
Accumulated other comprehensive loss (Note 19)		(948)	(155)
Retained earnings		7,915	6,535
		11,233	10,559
Total liabilities and shareholders' equity		$ 25,176	$ 26,720

On behalf of the Board:

David G.A. McLean Claude Mongeau

Director	Director

See accompanying notes to consolidated financial statements.

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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, 2006	512.4	$ 4,459	$ (44)	$ 5,409	$ 9,824
Adoption of accounting pronouncements (Note 2)	-	-	-	95	95
Restated balances, beginning of year	512.4	4,459	(44)	5,504	9,919
Net income	-	-	-	2,158	2,158
Stock options exercised and other (Notes 10, 11)	3.0	89	-	-	89
Share repurchase programs (Note 10)	(30.2)	(265)	-	(1,319)	(1,584)
Other comprehensive income (Note 19)	-	-	13	-	13
Dividends ($0.84 per share)	-	-	-	(418)	(418)
Balances at December 31, 2007	485.2	4,283	(31)	5,925	10,177
Net income	-	-	-	1,895	1,895
Stock options exercised and other (Notes 10, 11)	2.4	68	-	-	68
Share repurchase programs (Note 10)	(19.4)	(172)	-	(849)	(1,021)
Other comprehensive loss (Note 19)	-	-	(124)	-	(124)
Dividends ($0.92 per share)	-	-	-	(436)	(436)
Balances at December 31, 2008	468.2	4,179	(155)	6,535	10,559
Net income	-	-	-	1,854	1,854
Stock options exercised and other (Notes 10, 11)	2.8	87	-	-	87
Other comprehensive loss (Note 19)	-	-	(793)	-	(793)
Dividends ($1.01 per share)	-	-	-	(474)	(474)
Balances at December 31, 2009	471.0	$ 4,266	$ (948)	$ 7,915	$ 11,233

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows		U.S. GAAP		
In millions	Year ended December 31,	2009	2008	2007
Operating activities				
Net income		$ 1,854	$ 1,895	$ 2,158
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization		790	725	678
Deferred income taxes (Note 14)		138	230	(82)
Gain on disposal of property (Note 5)		(226)	-	(92)
Gain on disposal of investment (Note 6)		-	-	(61)
Other changes in:				
Accounts receivable (Note 4)		39	(432)	229
Material and supplies		32	(23)	18
Accounts payable and other		(204)	(127)	(396)
Other current assets		77	37	84
Other		(221)	(274)	(119)
Cash provided from operating activities		2,279	2,031	2,417
Investing activities				
Property additions		(1,402)	(1,424)	(1,387)
Acquisitions, net of cash acquired (Note 3)		(373)	(50)	(25)
Disposal of property (Note 5)		231	-	351
Disposal of investment (Note 6)		-	-	114
Other, net		107	74	52
Cash used by investing activities		(1,437)	(1,400)	(895)
Financing activities				
Issuance of long-term debt		1,626	4,433	4,171
Reduction of long-term debt		(2,109)	(3,589)	(3,589)
Issuance of common shares due to exercise of stock options and related excess tax benefits realized (Note 11)		73	54	77
Repurchase of common shares (Note 10)		-	(1,021)	(1,584)
Dividends paid		(474)	(436)	(418)
Cash used by financing activities		(884)	(559)	(1,343)
Effect of foreign exchange fluctuations on US dollar-denominated cash and cash equivalents		(19)	31	(48)
Net increase (decrease) in cash and cash equivalents		(61)	103	131
Cash and cash equivalents, beginning of year		413	310	179
Cash and cash equivalents, end of year		$ 352	$ 413	$ 310
Supplemental cash flow information				
		$ 7,505	$ 8,012	$ 8,139

Net cash receipts from customers and other						
Net cash payments for:						
Employee services, suppliers and other expenses		(4,314)		(4,920)		(4,323)
Interest		(407)		(396)		(340)
Workforce reductions (Note 8)		(17)		(22)		(31)
Personal injury and other claims (Note 17)		(112)		(91)		(86)
Pensions (Note 12)		(131)		(127)		(75)
Income taxes (Note 14)		(245)		(425)		(867)
Cash provided from operating activities	$	2,279	$	2,031	$	2,417

See accompanying notes to consolidated financial statements.

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 claims, 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. Costs associated with movements are recognized as the service is performed. Revenues are presented net of taxes collected from customers and remitted to governmental authorities.

C. Foreign exchange

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 19 – Accumulated other comprehensive loss).

The Company designates the US dollar-denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Accordingly, unrealized 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. 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. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. 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.

G. 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 track improvements are capitalized to the extent they meet the Company's minimum threshold for capitalization. Major overhauls and large refurbishments are also capitalized when they result in an extension to the useful life or increase the functionality of the asset. Included in property additions are the costs of developing computer software for internal use. Maintenance costs are expensed as incurred.

Upon sale or retirement of railroad properties in the normal course of business, cost less net salvage value is charged to accumulated depreciation, in accordance with the group method of depreciation and no gain or loss is recognized in income. 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.

Assets held for sale are measured at the lower of their carrying amount or fair value, less cost to sell. Losses resulting from significant line sales are recognized in income when the asset meets the criteria for classification as held for sale, whereas losses resulting from significant line abandonments are recognized in the statement of income when the asset ceases to be used. Gains are recognized in income when they are realized.

H. Depreciation

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 useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings	3%
Information technology	15%
Other	8%

The Company follows the group method of depreciation whereby a single 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. As such, the Company conducts comprehensive depreciation studies on a periodic basis to assess the reasonableness of the lives of properties based upon current information and historical

activities. Changes in estimated useful lives are accounted for prospectively.

The Company intends to perform a comprehensive depreciation study for its U.S. rolling stock and equipment that is expected to be completed in 2010. In 2008, the Company completed a depreciation study of its Canadian properties, plant and equipment, that resulted in an increase in depreciation expense of $20 million for the 12-month period ended December 31, 2008 compared to the same period in 2007.

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.

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 are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Environmental liabilities are recorded when environmental assessments occur and/or 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.

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 tax asset or liability is included in the computation of net income or Other comprehensive income (loss). Deferred 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 earnings 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. 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 11– Stock plans, for the assumptions used to determine fair value and for other required disclosures.

Q. Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, “Accounting for Transfers of Financial Assets - an amendment of FASB Statement No.140,” and SFAS No. 167, “Amendments to FASB Interpretation (FIN) No. 46(R)” which are effective for fiscal years and interim periods beginning after November 15, 2009. In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16 and ASU No. 2009-17, which amend the Accounting Standards Codification (ASC) for SFAS No. 166 and SFAS No. 167, respectively.

ASU No. 2009-16 modifies FASB ASC 860, “Accounting for Transfers of Financial Assets,” to change the circumstances in which a transferor derecognizes a portion or component of a financial asset, defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale and clarifies the determination of whether a transferor has surrendered control over transferred financial assets. The update requires enhanced disclosures about transfers of financial assets and a transferor’s continuing involvement with transfers of financial assets that are accounted for as sales.

ASU No. 2009-17 modifies FASB ASC 810, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,” to amend certain guidance for determining whether an entity is a variable interest entity, requires more frequent analysis to determine whether an enterprise has a controlling financial interest in or is the primary beneficiary of a variable interest entity, and eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. The update requires enhanced disclosures about an enterprise’s involvement in a variable interest entity.

The Company has determined that the update to standards FASB ASC 860 and FASB ASC 810 have no impact on the Company’s financial statements.

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2 – Accounting changes

On January 1, 2009, the Company adopted the new requirements of the FASB ASC 805, “Business Combinations,” relating to the accounting for business combinations (previously 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 year ended December 31, 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 – Acquisitions.

2007

Income taxes

On January 1, 2007, the Company adopted FIN No. 48, “Accounting for Uncertainty in Income Taxes” (now referred to as FASB ASC 740, “Income Taxes”), which prescribes the criteria for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provided guidance on derecognition, classification, interest and penalties, disclosure, and transition. The application of FIN No. 48 on January 1, 2007 had the effect of decreasing the net deferred income tax liability and increasing Retained earnings by $98 million. Disclosures prescribed by FIN No. 48 are presented in Note 14 – Income taxes.

Pensions and other postretirement benefits

On January 1, 2007, pursuant to SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (now referred to as FASB ASC 715, “Compensation – Retirement Benefits”), the Company early adopted the requirement to measure the defined benefit plan assets and the projected benefit obligation as of the date of the fiscal year-end statement of financial position for its U.S. plans. The Company elected to use the 15-month transition method, which allowed for the extrapolation of net periodic benefit cost based on the September 30, 2006 measurement date to the fiscal year-end date of December 31, 2007. As a result, the Company recorded a reduction of $3 million to Retained earnings at January 1, 2007, which represented the net periodic benefit cost pursuant to the actuarial valuation attributable to the period between the early measurement date of September 30, 2006 and January 1, 2007 (the date of adoption).

3 – Acquisitions

On January 31, 2009, the Company acquired the principal rail lines of the EJ&E for a total cash consideration of US$300 million (C$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 in and around Chicago. It serves steel mills, petrochemical customers, utility plants and distribution centers in northeastern Illinois and northwestern Indiana, and

connects with all the major railroads entering and exiting 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 US$100 million for railroad infrastructure improvements and over US$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 acquisition 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 year ended December 31, 2009 (see Note 2 – Accounting changes).

The following table summarizes the consideration paid for EJ&E and the finalized fair value of the assets acquired and liabilities assumed that were recognized at the acquisition date.

In US 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	$	4
Property, plant and equipment		310
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 December 31, 2009, were $74 million and $12 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.

2008

The Company acquired the three principal railway subsidiaries of the Quebec Railway Corp. (QRC) and a QRC rail-freight ferry operation for a total acquisition cost of $50 million, paid with cash on hand. The acquisition included:

(i) Chemin de fer de la Matapedia et du Golfe, a 221-mile short-line railway;
(ii) New Brunswick East Coast Railway, a 196-mile short-line railway;
(iii) Ottawa Central Railway, a 123-mile short-line railway; and
(iv) Compagnie de gestion de Matane Inc., a rail ferry which provides shuttle boat-rail freight service.

This acquisition was accounted for using the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of the acquired entities from the date of acquisition.

4 – Accounts receivable

In millions	December 31,	2009	2008
Freight		$ 567	$ 673
Non-freight		264	266
		831	939
Allowance for doubtful accounts		(34)	(26)
		$ 797	$ 913

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 fourth quarter of 2009, the Company reduced the program limit from $600 million to $350 million until September 30, 2010 to reflect the anticipated reduction in the use of the program. Thereafter, the program limit will remain at $600 million until the expiry of the program. The trust is a multi-seller trust and the Company is not the primary beneficiary. The trust was established in Ontario, Canada in 1994 by a Canadian bank to acquire receivables and interests in other financial assets from a variety of originators. Funding for the acquisition of these assets is customarily through the issuance of asset-backed commercial paper notes. The notes are secured by, and recourse is limited to, the assets purchased using the proceeds of the notes. At December 31, 2009, the trust held interests in 13 pools of assets and had notes outstanding of $1.3 billion. 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 a retained interest and recorded in Other current assets in its Consolidated Balance Sheet.

The Company has retained the responsibility for servicing, administering and collecting the receivables sold and receives no fee for such ongoing servicing responsibilities. The average servicing period is approximately one month. During 2009, proceeds from collections reinvested in the securitization program were approximately $151 million ($3.3 billion in 2008) and purchases of previously transferred accounts receivable were approximately $4 million (nil in 2008). At December 31, 2009, the servicing asset and liability were not significant. Subject to customary indemnifications, the trust's recourse is generally limited to the receivables.

The Company accounted for the accounts receivable securitization program as a sale, because control over the transferred accounts receivable was relinquished. Due to the relatively short collection period and the high quality of

the receivables sold, the fair value of the undivided interest transferred to the trust approximated the book value thereof. As such, no gain or loss was recorded.

As at December 31, 2009, the Company had sold receivables that resulted in proceeds of $2 million under the accounts receivable securitization program ($71 million as at December 31, 2008), and recorded the 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.

Other income included $1 million in 2009, $10 million in 2008 and $24 million in 2007, for costs related to the agreement, which fluctuate with changes in prevailing interest rates (see Note 13 – Other income). These costs include interest, program fees and fees for unused committed availability.

5 – Properties

In millions	December 31, 2009			December 31, 2008		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway (1)	$ 24,334	$ 6,618	$ 17,716	$ 24,724	$ 6,643	$ 18,081
Rolling stock	4,679	1,581	3,098	4,833	1,585	3,248
Buildings	1,131	456	675	1,253	541	712
Information technology	797	255	542	739	187	552
Other	998	399	599	957	347	610
	$ 31,939	$ 9,309	$ 22,630	$ 32,506	$ 9,303	$ 23,203
Capital leases included in properties						
Track and roadway (1)	$ 417	$ 38	$ 379	$ 418	$ 2	$ 416
Rolling stock	1,211	291	920	1,335	287	1,048
Buildings	109	11	98	109	7	102
Information technology	3	2	1	3	-	3
Other	105	29	76	122	30	92
	$ 1,845	$ 371	$ 1,474	$ 1,987	$ 326	$ 1,661

(1) Includes the cost of land of $1,791 million and $1,827 million as at December 31, 2009 and 2008, respectively, of which $108 million was for right-of-way access and was recorded as a capital lease in both years.

Disposal of property

(i) Lower Newmarket subdivision

In November 2009, the Company entered into an agreement with Metrolinx to sell the property known as the Lower Newmarket subdivision in Vaughan and Toronto, Ontario, together with the rail fixtures and certain passenger agreements (collectively the "Rail Property"), for cash proceeds of $71 million before transaction costs. 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 $69 million ($59 million after-tax) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

(ii) 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 $160 million before transaction costs, of which $50 million placed in escrow at the time of disposal was entirely released by December 31, 2009 in accordance with the terms of the agreement. 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) that was recorded in Other income under the full accrual method of accounting for real estate transactions.

(iii) Central Station Complex

In November 2007, the Company finalized an agreement with Homburg Invest Inc., to sell its Central Station Complex (CSC) in Montreal for proceeds of $355 million before transaction costs. Under the agreement, the Company entered into long-term arrangements to lease back its corporate headquarters building and the Central Station railway passenger facilities. The transaction resulted in a gain on disposal of $222 million, including amounts related to the corporate headquarters building and the Central Station railway passenger facilities, which are being deferred and amortized over their respective lease terms. A gain of $92 million ($64 million after-tax) was recognized in Other income.

6 – Intangible and other assets

In millions	December 31,	2009		2008
Pension asset (Note 12)	$	846	$	1,522
Other receivables		67		83
Intangible assets (A)		58		65
Investments (B)		22		24
Other		63		67
	$	1,056	$	1,761

A. Intangible assets

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

B. Investments

As at December 31, 2009, the Company had $18 million ($20 million as at December 31, 2008) of investments accounted for under the equity method and $4 million ($4 million as at December 31, 2008) of investments accounted for under the cost method.

The sale of investment in English Welsh and Scottish Railway (EWS) in November 2007 for cash proceeds of $114 million resulted in a gain on disposal of $61 million ($41 million after-tax) which was recorded in Other income. In addition, £18 million (C$36 million) was placed in escrow at the time of sale, to be recognized following the resolution of defined contingencies pursuant to the agreement. In 2009 and 2008, £5 million (C$8 million) and £2 million (C$4 million), respectively, was recorded in Other income following the resolution of defined contingencies. At December 31, 2009, £2 million (C$4 million) remained in escrow.

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7 – Accounts payable and other

In millions	December 31,	2009	2008
Trade payables		$ 309	$ 413
Accrued charges		195	232
Payroll-related accruals		190	237
Accrued interest		111	123
Personal injury and other claims provision		106	118
Income and other taxes		75	75
Environmental provisions		38	30
Other postretirement benefits liability (Note 12)		18	19
Workforce reduction provisions		11	17
Other		114	122
		$ 1,167	$ 1,386

8 – Other liabilities and deferred credits

In millions	December 31,	2009	2008
Other postretirement benefits liability, net of current portion (Note 12)		$ 250	$ 241
Personal injury and other claims provision, net of current portion		238	336
Pension liability (Note 12)		222	237
Environmental provisions, net of current portion		65	95
Workforce reduction provisions, net of current portion (A)		31	39
Deferred credits and other		390	405
		$ 1,196	$ 1,353

A. Workforce reduction provisions
The workforce reduction provisions, which relate to job reductions of prior years, including job reductions from the integration of acquired companies, are mainly comprised of payments related to severance, early retirement incentives and bridging to early retirement, the majority of which will be disbursed within the next few years. In 2009, net charges and adjustments increased the provisions by $3 million ($6 million for the year ended December 31, 2008). Payments have reduced the provisions by $17 million for the year ended December 31, 2009 ($22 million for the year ended December 31, 2008). As at December 31, 2009, the aggregate provisions, including the current portion, amounted to $42 million ($56 million as at December 31, 2008).

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9 – Long-term debt

In millions		Maturity	US dollar-denominated amount	December 31, 2009	2008
Debentures and notes: (A)					
Canadian National series:					
4.25%	5-year notes (B)	Aug. 1, 2009	$ 300	$ -	$ 365
6.38%	10-year notes (B)	Oct. 15, 2011	400	420	487
4.40%	10-year notes (B)	Mar. 15, 2013	400	420	487
4.95%	6-year notes (B)	Jan. 15, 2014	325	342	396
5.80%	10-year notes (B)	June 1, 2016	250	263	305
5.85%	10-year notes (B)	Nov. 15, 2017	250	263	305
5.55%	10-year notes (B)	May 15, 2018	325	342	396
6.80%	20-year notes (B)	July 15, 2018	200	210	244
5.55%	10-year notes (B)	Mar. 1, 2019	550	578	-
7.63%	30-year debentures	May 15, 2023	150	158	183
6.90%	30-year notes (B)	July 15, 2028	475	499	578
7.38%	30-year debentures (B)	Oct. 15, 2031	200	210	244
6.25%	30-year notes (B)	Aug. 1, 2034	500	526	609
6.20%	30-year notes (B)	June 1, 2036	450	473	548
6.71%	Puttable Reset Securities PURSSM (B)	July 15, 2036	250	263	305
6.38%	30-year debentures (B)	Nov. 15, 2037	300	315	365
Illinois Central series:					
5.00%	99-year income debentures	Dec. 1, 2056	7	8	9
7.70%	100-year debentures	Sept. 15, 2096	125	131	152