

CANADIAN NATIONAL RAILWAY CO
Form 6-K
July 25, 2012

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

Report of Foreign Issuer

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

For the month of July, 2012

Commission File Number: 001-02413

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

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

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

Form 20-F Form 40-F

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

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

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

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

Canadian National Railway Company

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Item

1. News Release dated July 25, 2012 entitled, "CN reports Q2-2012 net income of C\$631 million, or C\$1.44 per diluted share"

"Adjusted Q2-2012 net income was C\$659 million, with adjusted diluted EPS rising 19 per cent to C\$1.50 (1)"

Item 1

North America's Railroad

CN reports Q2-2012 net income of C\$631 million,
or C\$1.44 per diluted share

Adjusted Q2-2012 net income was C\$659 million, with adjusted diluted EPS rising 19 per cent to C\$1.50 (1)

MONTREAL, July 25, 2012 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the second quarter and six-month period ended June 30, 2012.

Second-quarter 2012 highlights

- Net income was C\$631 million, or C\$1.44 per diluted share, versus year-earlier net income of C\$538 million, or C\$1.18 per diluted share.
- Adjusted diluted Q2-2012 earnings per share (EPS) -- excluding a net income tax expense of C\$0.06 per diluted share -- rose 19 per cent to C\$1.50. The net income tax expense resulted from the enactment of higher provincial income tax rates, partly offset by an income tax recovery from the recapitalization of a foreign investment. (1)
- Revenues increased 13 per cent to C\$2,543 million, while revenue ton-miles rose eight per cent and carloadings increased four per cent.
 - Operating income increased 13 per cent to C\$985 million.
 - The operating ratio was 61.3 per cent, unchanged from the year-earlier.
- Free cash flow for the first six months of 2012 totalled C\$703 million, including the impact of Q1-2012 voluntary pension plan contributions totalling C\$450 million, compared with free cash flow of C\$823 million for the same period of 2011. (1)

Net income for first-half 2012 was C\$1,406 million, or C\$3.18 per diluted share, compared with net income of C\$1,206 million, or C\$2.63 per diluted share, for the comparable period of 2011.

Adjusted net income for the first six months of 2012 -- excluding the net income tax expense of C\$0.06 per diluted share, and the gain on the sale of rail lines (C\$0.57 per diluted share) -- was C\$1,182 million, with adjusted diluted EPS increasing 24 per cent to C\$2.67.

Claude Mongeau, president and chief executive officer, said: "CN's team of railroaders continues to deliver impressive results, converting strong volume and revenue growth into solid bottom-line results. Our focus on maintaining a fluid network and solid execution allowed us to further improve our industry-leading service for the benefit of our customers and shareholders.

"Other than grain and fertilizers, CN registered solid traffic increases in every commodity group during the second quarter -- intermodal, automotive, coal, petroleum and chemicals, and metals and minerals business units all registered double-digit gains in revenue ton-miles, with the rise in volumes due in part to economic growth, market share gains, and a labor disruption at a key competitor."

Revised 2012 financial outlook (2)

CN's first-half financial performance and assumption of continued positive economic conditions have prompted an upward revision of the Company's 2012 financial outlook, last updated on April 23, 2012.

Under its revised 2012 outlook, CN aims to:

- Deliver up to 15 per cent growth in adjusted diluted EPS for the year, over adjusted diluted EPS of C\$4.84 in 2011, despite an additional pension expense of approximately C\$100 million. This compares with CN's April outlook calling for a full 10 per cent growth in 2012 adjusted diluted EPS. (1)
- Generate free cash flow of approximately C\$1 billion – taking into consideration a potential C\$250 million additional voluntary pension contribution in the fourth quarter (for a potential total voluntary pension contribution of C\$700 million in 2012). This compares with CN's April outlook calling for free cash flow in the order of C\$950 million. (1)

Mongeau said: "Our agenda of Operational and Service Excellence continues to gain momentum on all key fronts. If economic growth remains on track in the second half, we should deliver another banner year in 2012."

Foreign currency impact on results

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars. As such, the Company's results are affected by exchange-rate fluctuations. On a constant currency basis that excludes the impact of fluctuations in foreign currency exchange rates, CN's second-quarter and first-half 2012 net income would have been lower by C\$13 million and C\$17 million, respectively, or by C\$0.03 and C\$0.04 per diluted share, respectively. (1)

Second-quarter 2012 revenues, traffic volumes and expenses

The 13 per cent rise in second-quarter revenues mainly resulted from higher freight volumes, due in part to growth in North American and Asian economies, the Company's performance above market conditions in a number of segments, as well as increased volumes as a result of a labor disruption at a key competitor; freight rate increases; the impact of a higher fuel surcharge resulting from year-over-year increases in applicable fuel prices and higher volumes; and the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues.

Revenues increased for metals and minerals (20 per cent), petroleum and chemicals (19 per cent), automotive (18 per cent), intermodal (16 per cent), coal (15 per cent), and forest products (nine per cent). Grain and fertilizers revenues declined one per cent.

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

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

Operating expenses for the second quarter increased by 12 per cent to C\$1,558 million, mainly due to higher labor and fringe benefits expense, increased fuel costs, the negative translation impact of the weaker Canadian dollar on U.S.-dollar-denominated expenses, as well as increased purchased services and material expense.

- 1) See discussion and reconciliation of non-GAAP adjusted performance-measures in the attached supplementary schedule, Non-GAAP Measures.
- 2) See Forward-Looking Statements for a summary of the key assumptions and risks regarding CN's 2012 outlook.

Forward-Looking Statements

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

Key assumptions

CN, as referenced earlier in this news release, is revising the 2012 financial outlook that was last updated on April 23, 2012, in a news release announcing the Company's first-quarter 2012 financial results.

Current assumptions

CN's revised 2012 financial outlook is based on a number of economic and market assumptions. The Company is forecasting that North American industrial production for 2012 will increase by about 3.5 per cent. For the year, CN also expects U.S. housing starts to be approximately 750,000 units, and U.S. motor vehicles sales to be approximately 14.5 million units. In addition, CN is assuming the 2012/2013 U.S. grain crop will be in line with the 2011/2012 crop year, and that the 2012/2013 Canadian grain crop will be slightly higher than the five-year average. With the assumptions above, CN also assumes carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN also assumes the Canadian-U.S. exchange rate to be slightly below parity for 2012 and that the price of crude oil (West Texas Intermediate) for the year to be in the range of US\$85-US\$95 per barrel. In 2012, CN plans to invest approximately C\$1.8 billion in capital programs, of which more than C\$1 billion will be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company will invest in projects to support a number of productivity and growth initiatives.

Prior assumptions (as of April 23, 2012)

CN, on April 23, 2012, revised its initial 2012 financial outlook that was issued on Jan. 24, 2012, in a news release announcing the Company's fourth-quarter and full-year 2011 financial results. On April 23, 2012, the Company forecast that North American industrial production for 2012 would increase by about 3.5 per cent (up from three per cent previously forecast). CN also expected U.S. housing starts would be approximately 750,000 units (compared with

700,000 units) and U.S. motor vehicles sales would be approximately 14.5 million units (up from 13.5 million units) for the year. In addition, CN assumed the 2012/2013 grain crops in both Canada and the U.S. would be in line with five-year averages. With respect to the 2011/2012 crop, U.S. corn and soybean production was projected to be slightly below -- and exports were projected to be significantly below -- the prior year's crop. Canadian 2011/2012 grain production and export forecasts were projected to be moderately above the prior year's crop. With these assumptions, CN also assumed carload growth in the mid-single digit range, along with continued pricing improvement above inflation. CN assumed the Canadian-U.S. exchange rate would be around parity for 2012, and that the price of crude oil (West Texas Intermediate) for the year would be in the range of US\$100 per barrel. In 2012, CN planned to invest approximately C\$1.8 billion in capital programs (up from C\$1.75 billion), of which more than C\$1 billion was to be targeted on track infrastructure to maintain a safe and fluid railway network. In addition, the Company planned to invest in projects to support a number of productivity and growth initiatives.

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

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

CN – Canadian National Railway Company and its operating railway subsidiaries – spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. For more information on CN, visit the Company’s website at www.cn.ca.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Revenues	\$ 2,543	\$ 2,260	\$ 4,889	\$ 4,344
Operating expenses				
Labor and fringe benefits	504	432	1,013	905
Purchased services and material	305	268	604	554
Fuel	379	353	755	680
Depreciation and amortization	230	217	460	435
Equipment rents	59	54	121	105
Casualty and other	81	62	158	146
Total operating expenses	1,558	1,386	3,111	2,825
Operating income	985	874	1,778	1,519
Interest expense	(86)	(85)	(172)	(171)
Other income (Note 3)	9	10	302	310
Income before income taxes	908	799	1,908	1,658
Income tax expense (Note 7)	(277)	(261)	(502)	(452)
Net income	\$ 631	\$ 538	\$ 1,406	\$ 1,206
Earnings per share (Note 10)				
Basic	\$ 1.44	\$ 1.19	\$ 3.20	\$ 2.64
Diluted	\$ 1.44	\$ 1.18	\$ 3.18	\$ 2.63
Weighted-average number of shares				
Basic	437.2	453.9	439.1	456.1
Diluted	439.5	457.1	441.5	459.4

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30 2012	June 30 2011	June 30 2012	June 30 2011
Net income	\$ 631	\$ 538	\$ 1,406	\$ 1,206
Other comprehensive income (loss)				
Foreign exchange gain (loss) on:				
Translation of the net investment in foreign operations	128	(33)	11	(180)
Translation of US dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(125)	29	(13)	169
Pension and other postretirement benefit plans (Note 6)				
Amortization of net actuarial loss included in net periodic benefit cost (income)	31	2	62	4
Amortization of prior service cost included in net periodic benefit cost (income)	2	1	4	1
Derivative instruments	-	-	-	(1)
Other comprehensive income (loss) before income taxes	36	(1)	64	(7)
Income tax recovery (expense)	9	(4)	(14)	(25)
Other comprehensive income (loss)	45	(5)	50	(32)
Comprehensive income	\$ 676	\$ 533	\$ 1,456	\$ 1,174

See accompanying notes to unaudited consolidated financial statements.

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

	June 30 2012	December 31 2011	June 30 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 345	\$ 101	\$ 175
Restricted cash and cash equivalents (Note 4)	472	499	467
Accounts receivable	833	820	825
Material and supplies	277	201	240
Deferred and receivable income taxes	47	122	50
Other	85	105	84
Total current assets	2,059	1,848	1,841
Properties	24,078	23,917	22,789
Intangible and other assets	329	261	840
Total assets	\$ 26,466	\$ 26,026	\$ 25,470
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and other	\$ 1,609	\$ 1,580	\$ 1,452
Current portion of long-term debt (Note 4)	784	135	530
Total current liabilities	2,393	1,715	1,982
Deferred income taxes	5,629	5,333	5,301
Pension and other postretirement benefits, net of current portion	576	1,095	510
Other liabilities and deferred credits	713	762	774
Long-term debt	5,991	6,441	5,432
Shareholders' equity:			
Common shares	4,132	4,141	4,211
Accumulated other comprehensive loss	(2,789)	(2,839)	(1,741)
Retained earnings	9,821	9,378	9,001
Total shareholders' equity	11,164	10,680	11,471
Total liabilities and shareholders' equity	\$ 26,466	\$ 26,026	\$ 25,470

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Common shares (1)				
Balance, beginning of period	\$ 4,153	\$ 4,228	\$ 4,141	\$ 4,252
Stock options exercised and other	22	34	78	56
Share repurchase programs (Note 4)	(43)	(51)	(87)	(97)
Balance, end of period	\$ 4,132	\$ 4,211	\$ 4,132	\$ 4,211
Accumulated other comprehensive loss				
Balance, beginning of period	\$ (2,834)	\$ (1,736)	\$ (2,839)	\$ (1,709)
Other comprehensive income (loss)	45	(5)	50	(32)
Balance, end of period	\$ (2,789)	\$ (1,741)	\$ (2,789)	\$ (1,741)
Retained earnings				
Balance, beginning of period	\$ 9,679	\$ 8,966	\$ 9,378	\$ 8,741
Net income	631	538	1,406	1,206
Share repurchase programs (Note 4)	(326)	(356)	(635)	(650)
Dividends	(163)	(147)	(328)	(296)
Balance, end of period	\$ 9,821	\$ 9,001	\$ 9,821	\$ 9,001

See accompanying notes to unaudited consolidated financial statements.

(1) During the three and six months ended June 30, 2012, the Company issued 0.6 million and 1.9 million common shares, respectively, as a result of stock options exercised and repurchased 4.5 million and 9.2 million common shares, respectively, under its current share repurchase program. At June 30, 2012, the Company had 434.8 million common shares outstanding.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Operating activities				
Net income	\$ 631	\$ 538	\$ 1,406	\$