

CANADIAN NATIONAL RAILWAY CO
Form 6-K
October 26, 2005

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

For the month of October, 2005

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

Table of Contents

- Item 1 Press Release dated October 18, 2005, titled "CN reports record third-quarter earnings and nine-month free cash flow of more than \$1 billion .
 - Item 2 Interim Consolidated Financial Statements and Notes thereto (U.S. GAAP)
 - Item 3 Management's Discussion and Analysis (U.S. GAAP)
 - Item 4 Certificate of CEO
 - Item 5 Certificate of CFO
-

Item 1

CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE

North America's Railroad

News
FOR IMMEDIATE RELEASE

Stock symbols: TSX: CNR / NYSE: CNI

www.cn.ca

CN reports record third-quarter earnings and nine-month free cash flow of more than \$1 billion

MONTREAL, Oct. 18, 2005 □ CN today reported its financial and operating results for the third quarter and nine-month period ended Sept. 30, 2005.

Third-quarter financial highlights

- Diluted earnings per share of \$1.47, up 24 per cent;
- Record net income of \$411 million, an increase of 19 per cent;
- Operating income of \$665 million, an increase of 13 per cent;
- Operating ratio of 63.3 per cent, a 2.1-percentage point improvement;
- Record nine-month free cash flow of \$1,058 million, up from \$754 million for the same period of 2004;⁽¹⁾
- Favourable income tax adjustments and other income helped to offset expenses related to the derailment at Wabamun Lake, Alta.

1

**CANADIAN NATIONAL RAILWAY COMPANY
PRESS RELEASE**

E. Hunter Harrison, president and chief executive officer of CN, said: CN posted record third-quarter earnings and nine-month free cash flow despite the headwinds of higher fuel costs, the effects of two hurricanes on our network in the Gulf Coast region of the United States, and unfortunate accidents.

Revenues for third-quarter 2005 increased six per cent to \$1,810 million, with CN's grain and fertilizers, coal, and intermodal segments registering double-digit revenue growth. Forest products, metals and minerals, and automotive revenues also improved.

CN's revenue performance was driven largely by increased freight rates. An important contributor to these rate increases was a higher fuel surcharge owing to increased crude oil prices. Partly offsetting revenue gains during the quarter was the unfavourable \$80-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated revenues.

Grain and fertilizer revenues benefited from higher export shipments of Canadian peas, barley and canola, while improved coal revenues reflected metallurgical coal shipments originating at new mines in western Canada. Strong container imports over the Port of Vancouver helped to increase intermodal revenues. CN also enjoyed strong demand for construction materials, which benefited its forest products and metals and minerals revenues. Automotive revenues increased in part as a result of higher imports of vehicles over the ports of Vancouver and Halifax and increased finished vehicle traffic in the southern U.S. Petroleum and chemicals revenues were adversely affected by soft market conditions and reduced petrochemical production in the hurricane-stricken Gulf Coast region.

Operating expenses for the third quarter of 2005 increased by two per cent to \$1,145 million, largely as a result of higher fuel costs and higher casualty and other expenses. These increases were partly offset by the favourable \$50-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated expenses.

2

CANADIAN NATIONAL RAILWAY COMPANY

PRESS RELEASE

The continued appreciation of the Canadian dollar reduced the company's third-quarter 2005 net income by approximately \$15 million.

Financial results for the first nine months of 2005

Net income for the nine-month period ended Sept. 30 was \$1,126 million, or \$3.98 per diluted share, compared with net income of \$882 million, or \$3.05 per diluted share, for the comparable period of 2004.

Operating income for the latest nine-month period increased 22 per cent to \$1,904 million.

CN's operating ratio for the nine-month period was 64.4 per cent, an improvement of 3.2 percentage points.

Revenues for the latest nine-month period increased 11 per cent to \$5,354 million, due mainly to freight rate increases, the inclusion of nine months of revenues from the rail and related holdings of Great Lakes Transportation LLC (GLT) and BC Rail, and a return to normal intermodal volumes following the first-quarter 2004 strike by the Canadian Auto Workers union. Partly offsetting these gains was the unfavourable \$220-million translation impact of the stronger Canadian dollar on U.S.-dollar denominated revenues.

CN acquired and consolidated GLT and BC Rail on May 10, 2004, and July 14, 2004, respectively.

Operating expenses increased six per cent to \$3,450 million, primarily due to increased fuel costs, the inclusion of nine months of GLT and BC Rail expenses, and higher labour and fringe benefits. Partly offsetting these factors was the favourable \$135-million translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses, and lower equipment rents.

CANADIAN NATIONAL RAILWAY COMPANY PRESS RELEASE

The continued appreciation of the Canadian dollar reduced the company's nine-month 2005 net income by approximately \$45 million.

The financial results in this press release are reported in Canadian dollars and were determined on the basis of U.S. generally accepted accounting principles (U.S. GAAP).

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

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk and uncertainties and that its results could differ materially from those expressed or implied in such statements. Reference should be made to CN's most recent Form 40-F filed with the United States Securities and Exchange Commission, its Annual Information Form filed with the Canadian securities regulators, and its 2004 Annual and 2005 Quarterly Financial Statements and Management Discussion and Analysis, for a summary of major risks.

Canadian National Railway Company 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 cities of

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, St. Louis, and Jackson, Miss., with connections to all points in North America.

- 30 -

Contacts:

Media

Mark Hallman
System Director, Media Relations
(905) 669-3384

Investment Community

Robert Noorigian
Vice-President, Investor Relations
(514) 399-0052

4

Item 2

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME (U.S. GAAP)

(In millions, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2005	2004(1)	2005	2004(1)
	<i>(Unaudited)</i>			
Revenues	\$ 1,810	\$ 1,709	\$ 5,354	\$ 4,812
Operating expenses	1,145	1,118	3,450	3,251
Operating income	665	591	1,904	1,561
Interest expense	(72)	(79)	(225)	(219)
Other income (loss)	11	(9)	2	(45)
Income before income taxes	604	503	1,681	1,297
Income tax expense	(193)	(157)	(555)	(415)
Net income	\$ 411	\$ 346	\$ 1,126	\$ 882
Earnings per share				
Basic	\$ 1.50	\$ 1.21	\$ 4.05	\$ 3.09

Diluted \$ **1.47** \$ 1.19 \$ **3.98** \$ 3.05

Weighted-average number of shares

Basic	273.7	285.9	277.9	285.1
Diluted	278.7	290.8	283.1	289.6

See accompanying notes to consolidated financial statements.

(1) Includes GLT and BC Rail from dates of acquisition. (See Note 2 - Acquisitions)

5

CANADIAN NATIONAL RAILWAY COMPANY
CONSOLIDATED STATEMENT OF OPERATING INCOME (U.S. GAAP)

(In millions)

	Three months ended September 30			Nine months ended September 30		
	2005	2004(1)	Variance Fav (Unfav)	2005	2004(1)	Variance Fav (Unfav)
	<i>(Unaudited)</i>					
Revenues						
Petroleum and chemicals	\$ 267	\$ 282	(5%)	\$ 813	\$ 791	3%
Metals and minerals	209	203	3%	622	521	19%
Forest products	448	417	7%	1,302	1,106	18%
Coal	80	71	13%	256	212	21%
Grain and fertilizers	273	234	17%	809	764	6%
Intermodal	331	302	10%	931	817	14%
Automotive	114	112	2%	375	385	(3%)
Other items	88	88	-	246	216	14%
	1,810	1,709	6%	5,354	4,812	11%
Operating expenses						
Labor and fringe benefits	453	465	3%	1,388	1,350	(3%)
Purchased services and material	188	190	1%	590	561	(5%)
Depreciation and amortization	156	153	(2%)	470	445	(6%)
Fuel	181	132	(37%)	526	377	(40%)
Equipment rents	46	64	28%	146	195	25%
Casualty and other	121	114	(6%)	330	323	(2%)

	1,145	1,118	(2%)	3,450	3,251	(6%)
Operating income	\$ 665	\$ 591	13%	\$ 1,904	\$ 1,561	22%
Operating ratio	63.3%	65.4%	2.1	64.4%	67.6%	3.2

See accompanying notes to consolidated financial statements.

⁽¹⁾ Includes GLT and BC Rail from dates of acquisition. (See Note 2 - Acquisitions)

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

6

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

(In millions)

	September 30 2005	December 31 2004	September 30 2004
	<i>(Unaudited)</i>		<i>(Unaudited)</i>
Assets			
Current assets:			
Cash and cash equivalents	\$ 119	\$ 147	\$ 132
Accounts receivable (Note 4)	643	793	743
Material and supplies	175	127	155
Deferred income taxes	47	364	106
Other	252	279	279
	1,236	1,710	1,415
Properties	19,761	19,715	20,022
Intangible and other assets	930	940	947
Total assets	\$ 21,927	\$ 22,365	\$ 22,384

Edgar Filing: CANADIAN NATIONAL RAILWAY CO - Form 6-K

Stock options exercised and other	45	38	146	78
Share repurchase program (Note 4)	(80)	-	(247)	-
Balance, end of period	\$ 4,605	\$ 4,742	\$ 4,605	\$ 4,742

Accumulated other comprehensive loss

Balance, beginning of period	\$ (106)	\$ (35)	\$ (148)	\$ (129)
Other comprehensive income (loss):				
Unrealized foreign exchange gain on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	200	238	123	109
Unrealized foreign exchange loss on translation of the net investment in foreign operations	(283)	(333)	(190)	(126)
Increase (decrease) in unrealized holding gains on fuel derivative instruments (Note 6)	(12)	69	35	112
Realized gain (loss) on settlement of interest rate swaps	-	(6)	-	12
Other comprehensive income (loss) before income taxes	(95)	(32)	(32)	107
Income tax recovery (expense)	32	10	11	(35)
Other comprehensive income (loss)	(63)	(22)	(21)	72
Balance, end of period	\$ (169)	\$ (57)	\$ (169)	\$ (57)

Retained earnings

Balance, beginning of period	\$ 4,720	\$ 4,322	\$ 4,726	\$ 3,897
Net income	411	346	1,126	882
Share repurchase program (Note 4)	(300)	-	(881)	-
Dividends	(68)	(56)	(208)	(167)
Balance, end of period	\$ 4,763	\$ 4,612	\$ 4,763	\$ 4,612

See accompanying notes to consolidated financial statements.

⁽¹⁾Includes GLT and BC Rail from dates of acquisition. (See Note 2 - Acquisitions)

⁽²⁾During the three and nine months ended September 30, 2005, the Company issued 0.7 million and 3.0 million common shares, respectively, as a result of stock options exercised. At September 30, 2005, the Company had 271.3 million common shares

outstanding.

8

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

(In millions)

	Three months ended September 30		Nine months ended September 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
	(Unaudited)			
Operating activities				
Net income	\$ 411	\$ 346	\$ 1,126	\$ 882
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	157	153	473	448
Deferred income taxes	146	158	444	300
Equity in earnings of English Welsh and Scottish Railway	-	(1)	(6)	7
Other changes in:				
Accounts receivable	(10)	(80)	124	(140)
Material and supplies	9	30	(50)	(8)
Accounts payable and accrued charges	(103)	(81)	(184)	(110)
Other net current assets and liabilities	40	26	83	45
Other	(7)	5	1	27
Cash provided from operating activities	643	556	2,011	1,451
Investing activities				
Net additions to properties	(321)	(323)	(792)	(707)
Acquisition of BC Rail (Note 2)	-	(984)	-	(984)
Acquisition of Great Lakes Transportation LLC's railroads and related holdings (Note 2)	-	6	-	(547)
Other, net	17	(3)	90	169
Cash used by investing activities	(304)	(1,304)	(702)	(2,069)

Dividends paid	(68)	(56)	(208)	(167)
----------------	-------------	------	--------------	-------

Financing activities

Issuance of long-term debt	648	2,903	1,741	6,924
Reduction of long-term debt	(599)	(2,132)	(1,846)	(6,198)
Issuance of common shares	24	30	104	61
Repurchase of common shares	(380)	-	(1,128)	-

Cash provided from (used by) financing activities	(307)	801	(1,129)	787
---	--------------	-----	----------------	-----

Net increase (decrease) in cash and cash equivalents	(36)	(3)	(28)	2
---	-------------	-----	-------------	---

Cash and cash equivalents, beginning of period	155	135	147	130
--	------------	-----	------------	-----

Cash and cash equivalents, end of period	\$ 119	\$ 132	\$ 119	\$ 132
---	---------------	--------	---------------	--------

Supplemental cash flow information

Net cash receipts from customers and other	\$ 1,825	\$ 1,738	\$ 5,545	\$ 4,761
Net cash payments for:				
Employee services, suppliers and other expenses	(946)	(974)	(2,951)	(2,746)
Interest	(93)	(71)	(236)	(199)
Workforce reductions	(20)	(25)	(72)	(81)
Personal injury and other claims	(23)	(23)	(71)	(78)
Pensions	(19)	(61)	(73)	(127)
Income taxes	(81)	(28)	(131)	(79)

Cash provided from operating activities	\$ 643	\$ 556	\$ 2,011	\$ 1,451
---	---------------	--------	-----------------	----------

See accompanying notes to consolidated financial statements.

⁽¹⁾Includes GLT and BC Rail from dates of acquisition. (See Note 2 - Acquisitions)

Certain of the 2004 comparative figures have been reclassified in order to be consistent with the 2005 presentation.

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

Note 1 □ Basis of presentation

In management's opinion, the accompanying unaudited interim consolidated financial statements, expressed in Canadian dollars, and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), contain all adjustments (consisting of normal recurring accruals) necessary to present fairly Canadian National Railway Company's (the Company) financial position as at September 30, 2005 and December 31 and September 30, 2004, its results of operations, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2005 and 2004.

These interim consolidated financial statements and notes have been prepared using accounting policies consistent with those used in preparing the Company's 2004 Annual Consolidated Financial Statements. While management believes that the disclosures presented are adequate to make the information not misleading, these interim consolidated financial statements and notes should be read in conjunction with the Company's Interim Management's Discussion and Analysis and Annual Consolidated Financial Statements and notes thereto.

Note 2 – Acquisitions

Great Lakes Transportation LLC's railroads and related holdings (GLT) and BC Rail Partnership and the former BC Rail Ltd. (collectively BC Rail) were acquired and consolidated effective May 10, 2004 and July 14, 2004, respectively. Accordingly, the Company's results of operations for the three and nine months ended September 30, 2004 included the results of operations of GLT as of May 10, 2004 and BC Rail as of July 14, 2004.

The Company's final cost to acquire GLT of U.S.\$395 million (Cdn\$547 million) and BC Rail of \$991 million, included purchase price adjustments and transaction costs. By the second quarter of 2004, the Company had paid U.S.\$399 million (Cdn\$553 million) for the acquisition of GLT and subsequently received Cdn\$6 million for purchase price adjustments finalized in the third quarter of 2004.

The Company had estimated, on a preliminary basis, the fair value of GLT's and BC Rail's assets acquired, owned and leased, and liabilities assumed at acquisition based on then current available information. The Company has since finalized the allocations of the GLT and BC Rail purchase price and has not made any significant adjustments to the preliminary purchase price allocations as presented in Note 3 – Acquisitions, of the Company's 2004 Annual Consolidated Financial Statements.

For comparative purposes only, if the Company had acquired both GLT and BC Rail on January 1, 2004, based on their respective historical amounts, net of the amortization of the difference between the Company's cost to acquire GLT and BC Rail and their respective net assets (based on preliminary estimates of the fair value of GLT's and BC Rail's assets and liabilities), revenues, net income, and basic and diluted earnings per share would have been \$1,719 million, \$347 million, \$1.21 per basic share and \$1.19 per diluted share, respectively, for the three months ended September 30, 2004 and \$5,037 million, \$896 million, \$3.14 per basic share and \$3.09 per diluted share, respectively, for the nine months ended September 30, 2004.

The pro forma figures for both GLT and BC Rail do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

Note 3 – Note receivable from English Welsh and Scottish Railway (EWS)

On April 28, 2005, EWS fully redeemed the Company's 8% note receivable due 2009. The Company received £26 million (Cdn\$61 million), which included principal and accrued but unpaid interest to the date of redemption.

Note 4 – Financing activities

In January 2005, the Company repaid its borrowings of U.S.\$90 million (Cdn\$108 million) outstanding at December 31, 2004 under its U.S.\$1,000 million revolving credit facility. On March 29, 2005, the Company refinanced, by way of amendment, its revolving credit facility, which was scheduled to mature in December 2005, for a five-year period to March 2010. The credit facility is available for general corporate purposes, including back-stopping the Company's commercial paper program. The credit facility 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 amended credit facility agreement retains the customary limitation on debt as a percentage of total capitalization, but eliminates the requirement for maintaining tangible net worth above pre-defined levels. The Company has been in compliance with this covenant throughout the period. As at September 30, 2005, the Company had letters of credit of \$317 million under its

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

revolving credit facility and outstanding borrowings of U.S.\$383 million (Cdn\$448 million) under its commercial paper program.

In May 2005, the Company repaid U.S.\$100 million (Cdn\$125 million) of 7.75% 10-year Notes with cash on hand.

The Company has an accounts receivable securitization program, expiring in June 2006, under which it may sell, on a revolving basis, a maximum of \$500 million (\$450 million prior to February 2005) of eligible freight trade and other receivables outstanding at any point in time, to an unrelated trust. The Company has a contingent residual interest of approximately 10% of receivables sold, which is recorded in Other current assets. At September 30, 2005, pursuant to the agreement, \$480 million had been sold, compared to \$445 million at December 31, 2004.

On July 20, 2005, the Board of Directors of the Company approved a new share repurchase program which allows for the repurchase of up to 16.0 million common shares between July 25, 2005 and July 24, 2006 pursuant to a normal course issuer bid, at prevailing market prices.

In the third quarter of 2005, under its current share repurchase program, the Company repurchased 4.75 million common shares for \$380 million, at an average price of \$79.98 per share.

In the second quarter of 2005, the Company completed its 14.0 million share repurchase program, which began November 1, 2004. The total cost of the program was \$1,021 million (average price per share of \$72.94), with 10.0 million common shares repurchased in 2005 for \$748 million (average price per share of \$74.78).

Note 5 □ Stock-based compensation

For the three and nine months ended September 30, 2005 and 2004, the Company recorded total compensation cost for awards under all plans of \$38 million and \$79 million, respectively, and \$12 million and \$37 million, respectively, for the same periods in 2004.

(a) Restricted share units

In 2005, the Company granted approximately 0.4 million restricted share units (RSUs) to designated management employees entitling them to receive payout in cash based on the Company's share price. The RSUs granted are scheduled for payout after three years and vest upon the attainment of targets relating to return on invested capital over the three-year period and to the Company's share price during the three-month period ending December 31, 2007. At September 30, 2005, the Company had approximately 1.6 million RSUs outstanding under the Plan. For the three and nine months ended September 30, 2005, the Company recorded compensation cost of \$27 million and \$58 million, respectively, compared to \$8 million and \$15 million, respectively, for the same 2004 periods.

(b) Stock options

In 2005, the Company granted approximately 0.7 million 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 September 30, 2005, including conventional, performance, and performance-accelerated options was 11.0 million. For the three and nine months ended September 30, 2005, the Company recorded compensation cost of \$4 million and \$15 million, respectively, compared to \$2 million and \$7 million, respectively, for the same 2004 periods. At September 30, 2005, 8.1 million options remained authorized for future issuances.

(c) Vision 2008 Share Unit Plan

In the first quarter of 2005, the Board of Directors of the Company approved a special share unit plan with a four-year term to December 2008, entitling designated senior management employees to receive payout in cash in January 2009. The Company granted 0.4 million share units which vest conditionally upon the attainment of targets relating to the Company's share price during the six-month period ending December 31, 2008. Payout is also conditional upon the attainment of targets relating to return on invested capital over the four-year period and to the Company's share price during the 20-day period ending on December 31, 2008. Award payout will be equal to the number of share units vested on December 31, 2008 multiplied by the Company's 20-day average share price ending on such date. Due to the nature of the vesting conditions, no compensation cost was recorded for the three and nine months ended September 30, 2005.

11

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

The Company follows the fair value based approach for stock option awards and had prospectively applied this method of accounting to all awards granted, modified or settled on or after January 1, 2003. The Company follows the intrinsic value method for cash settled awards. If compensation cost had been determined based upon fair values at the date of grant for awards under all plans, the Company's pro forma net income and earnings per share would have been as follows:

<i>In millions, except per share data</i>	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Net income, as reported	\$ 411	\$ 346	\$ 1,126	\$ 882
Add (deduct) compensation cost, net of applicable taxes, determined under:				
Fair value method for all awards granted after Jan 1, 2003 (SFAS No. 123)	26	9		