

CANADIAN NATIONAL RAILWAY CO
Form 6-K
October 27, 2006

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, 2006

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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North America's Railroad

News
FOR IMMEDIATE RELEASE

Stock symbols: TSX: CNR / NYSE: CNI

www.cn.ca

CN posts 27 per cent increase in Q3 2006 diluted EPS, revises upwards 2006 full-year earnings guidance, expects solid 2007 financial performance

MONTREAL, Oct. 19, 2006 CN today reported its financial and operating results for the three-month and nine-month periods ended Sept. 30, 2006.

Third-quarter 2006 financial highlights

Net income of C\$497 million, a 21 per cent increase over third-quarter 2005;

Diluted earnings per share (EPS) of C\$0.94, an increase of 27 per cent;

Operating income of C\$844 million, up 27 per cent;

Solid revenues of C\$1,981 million, an increase of nine per cent;

Record quarterly operating ratio of 57.4 per cent, an improvement of 5.9 percentage points, and

Nine-months free cash flow of C\$1,131 million ⁽¹⁾

E. Hunter Harrison, president and chief executive officer, said: CN produced exceptional third-quarter results, reflecting substantial revenue growth, asset utilization and cost control accomplishments. Revenues increased nine per cent, freight volume was up six per cent, and carloadings improved by two per cent.

The top line benefited from the underlying strength of the diverse and balanced portfolio of commodities that CN transports, as well as freight rate increases. Cost control was again outstanding -- operating expenses declined one per cent during the quarter despite an increase in workload and much higher fuel expenses. Our revenue, cost performance and asset utilization focus all came together in producing a record quarterly operating ratio of 57.4 per cent.

CN's business model -- the pursuit of long-term, sustainable growth, and its consistent ability to grow the business at low incremental cost -- continues to hit the mark, driving superior bottom line growth and delivering shareholder value.

Positive revision to CN's 2006 earnings guidance, solid financial outlook for 2007

Harrison said: I'm pleased to announce today that CN is revising upwards its full-year 2006 earnings guidance because of the strong year-to-date financial performance of the company. CN now expects 2006 adjusted diluted earnings per share to be approximately C\$3.40. (2)

Building on the strength of CN's 2006 financial track record, the company expects 2007 diluted earnings per share to grow in the 10 per cent-plus range, consistent with the company's long-term vision.

In addition, CN expects 2006 free cash flow of approximately C\$1.3 billion, and 2007 free cash flow of approximately C\$800 million, with the reduction in 2007 reflecting higher cash payments for Canadian income taxes.

CN's 2007 financial outlook assumes, among various conditions, the latest consensus forecast of North American economic growth of 2.6 per cent; crude oil prices (West Texas Intermediate) of US\$65 per barrel; and a Canadian-U.S. dollar exchange rate of US\$0.89 per Canadian dollar.

Third-quarter revenues and expenses

Third-quarter revenues increased nine per cent due to rate increases, higher fuel surcharges, and volume growth, particularly in the grain, intermodal, and metals and minerals commodity groups. Partly offsetting these gains was the unfavourable C\$65-million translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues.

Six of CN's seven commodity groups experienced revenue increases during the quarter, while revenue ton-miles—a measure of the rail freight volume carried by the company—rose by six per cent.

CN's operating expenses for the third quarter declined one per cent to C\$1,137 million, owing largely to lower casualty and other expense, lower labour and fringe benefits expense, and the favourable C\$40-million translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses. Partly offsetting these factors were increased fuel costs, and purchased services and material expense.

The continued appreciation in the Canadian dollar relative to the U.S. dollar reduced third-quarter net income by approximately C\$15 million, or approximately three cents per diluted share.

Nine-month results

Net income for the first nine months of 2006 increased by 41 per cent to C\$1,588 million, with diluted earnings per share increasing 48 per cent to C\$2.95. Included in net income was a second-quarter deferred income tax recovery of C\$250 million (C\$0.46 per diluted share) resulting primarily from the enactment of lower federal and provincial corporate tax rates in Canada.

Revenues for the nine-month period increased by eight per cent to C\$5,774 million due to rate increases, higher fuel surcharges, and volume growth, particularly in the grain, intermodal and metals and minerals commodity groups. Partly offsetting these gains was the unfavourable C\$220-million translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues.

Operating expenses for the first nine months of 2006 increased one per cent to C\$3,500 million. The increase was largely due to increased fuel costs, purchased services and material expense, and depreciation. Partly offsetting these factors was the favourable C\$130-million translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses, lower casualty and other expense, and lower labour and fringe benefits expense.

Operating income increased 19 per cent to C\$2,274 million, while the company's operating ratio improved by 3.8 percentage points to 60.6 per cent.

The continued appreciation of the Canadian dollar relative to the U.S. dollar reduced nine-month 2006 net income by approximately C\$50 million, or approximately nine cents per diluted share.

The financial results in this press release 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.

(2) CN's positive revision to its full-year 2006 earnings outlook -- the company now forecasts 2006 adjusted diluted earnings per share to be approximately C\$3.40 -- excludes the effect of the company's second-quarter 2006 deferred income tax recovery of C\$250 million (C\$0.46 per diluted share). For comparison purposes, CN reported 2005 diluted earnings per share of C\$2.77.

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk and uncertainties, including the assumptions described above in this news release, and that its results could differ materially from those expressed or implied in such statements. Important factors that could cause such differences include, but are not limited to, industry competition, legislative and/or regulatory developments compliance with environmental laws and regulations, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, the effects of adverse general economic and business conditions, inflation, currency fluctuations, changes in fuel prices, labour disruptions, environmental claims, investigations or proceedings, other types of claims and litigation, 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 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, its 2005 Annual Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis (MD&A), as well as its 2006 quarterly consolidated financial statements and MD&A, for a summary of major risks.

CN — 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 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.

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
	<i>(Unaudited)</i>			
Revenues	\$ 1,981	\$ 1,810	\$ 5,774	\$ 5,354
Operating expenses	1,137	1,145	3,500	3,450
Operating income	844	665	2,274	1,904
Interest expense	(82)	(72)	(232)	(225)
Other income (loss)	(10)	11	(16)	2
Income before income taxes	752	604	2,026	1,681
Income tax expense <i>(Note 4)</i>	(255)	(193)	(438)	(555)
Net income	\$ 497	\$ 411	\$ 1,588	\$ 1,126

Earnings per share (Notes 8, 9)

Basic	\$ 0.95	\$ 0.75	\$ 3.00	\$ 2.03
Diluted	\$ 0.94	\$ 0.74	\$ 2.95	\$ 1.99

Weighted-average number of shares

Basic	522.5	547.3	529.5	555.8
Diluted	530.2	557.4	538.0	566.2

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30			Nine months ended September 30		
	2006	2005	Variance Fav (Unfav)	2006	2005	Variance Fav (Unfav)
<i>(Unaudited)</i>						
Revenues						
Petroleum and chemicals	\$ 298	\$ 267	12%	\$ 872	\$ 813	7%
Metals and minerals	239	209	14%	681	622	9%
Forest products	449	448	-	1,331	1,302	2%
Coal	96	80	20%	282	256	10%
Grain and fertilizers	308	273	13%	907	809	12%
Intermodal	376	331	14%	1,062	931	14%
Automotive	120	114	5%	383	375	2%
Other items	95	88	8%	256	246	4%
	1,981	1,810	9%	5,774	5,354	8%
Operating expenses						
Labor and fringe benefits	416	453	8%	1,334	1,388	4%
Purchased services and material	205	188	(9%)	623	590	(6%)
Depreciation and amortization	157	156	(1%)	483	470	(3%)
Fuel	235	181	(30%)	663	526	(26%)
Equipment rents	50	46	(9%)	135	146	8%
Casualty and other	74	121	39%	262	330	21%
	1,137	1,145	1%	3,500	3,450	(1%)
Operating income	\$ 844	\$ 665	27%	\$ 2,274	\$ 1,904	19%
Operating ratio	57.4%	63.3%	5.9	60.6%	64.4%	3.8

See accompanying notes to consolidated financial statements.

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

(In millions)

	September 30 2006	December 31 2005	September 30 2005
	<i>(Unaudited)</i>		<i>(Unaudited)</i>
Assets			
Current assets:			
Cash and cash equivalents	\$ 56	\$ 62	\$ 119
Accounts receivable (Note 2)	1,035	623	643
Material and supplies	205	151	175
Deferred income taxes	80	65	47
Other	107	248	252
	1,483	1,149	1,236
Properties	20,216	20,078	19,761
Intangible and other assets	976	961	930
Total assets	\$ 22,675	\$ 22,188	\$ 21,927
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued charges	\$ 1,671	\$ 1,478	\$ 1,429
Current portion of long-term debt (Note 2)	151	408	370
Other	69	72	115
	1,891	1,958	1,914
Deferred income taxes (Note 4)	4,884	4,817	4,743
Other liabilities and deferred credits	1,474	1,487	1,463
Long-term debt (Note 2)	5,164	4,677	4,608
Shareholders' equity:			
Common shares	4,476	4,580	4,605