

CANADIAN NATIONAL RAILWAY CO
Form 6-K
January 22, 2009

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 January, 2009

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

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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1. News Release dated January 22, 2009 entitled, "CN reports Q4-2008 net income of C\$573 million, or C\$1.21 per diluted share, including deferred income tax recovery of C\$0.09".
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Item 1

North America's Railroad

NEWS RELEASE

CN reports Q4-2008 net income of C\$573 million,
or C\$1.21 per diluted share, including deferred
income tax recovery of C\$0.09

MONTREAL, Jan. 22, 2009 — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the quarter and year ended Dec. 31, 2008.

Fourth-quarter 2008 highlights

- Net income was C\$573 million, or C\$1.21 per diluted share, including a deferred income tax recovery of C\$42 million, or C\$0.09 per diluted share.
- Revenues increased 13 per cent over Q4-2007 to C\$2,200 million, while operating expenses rose 15 per cent to C\$1,380 million.
- Operating income was C\$820 million, an increase of 11 per cent from the year earlier results, with the operating ratio increasing six-tenths of a point to 62.7 per cent.
 - Strong full-year 2008 free cash flow of C\$794 million. (1)

Net income for the fourth quarter of 2008 was C\$573 million, or C\$1.21 per diluted share, including a deferred income tax recovery of C\$42 million (C\$0.09 per diluted share) resulting from the resolution of various income tax matters and adjustments related to tax filings of prior years. Excluding this item, adjusted fourth-quarter 2008 net income was C\$531 million, or C\$1.12 per diluted share. (1)

Net income for the comparable quarter of 2007 was C\$833 million, or C\$1.68 per diluted share, including a net deferred income tax recovery of C\$284 million (C\$0.57 per diluted share) resulting from the enactment of corporate income tax rate changes in Canada, and after-tax gains of C\$64 million (C\$0.13 per diluted share) on the sale of CN's Central Station Complex (CSC) in Montreal and C\$41 million (C\$0.08 per diluted share) on the sale of the Company's investment in English Welsh and Scottish Railway (EWS). Excluding these items, CN's adjusted fourth-quarter 2007 net income was C\$444 million, or C\$0.90 per diluted share. (1)

E. Hunter Harrison, president and chief executive officer, said: "CN turned in a solid fourth-quarter 2008 performance despite significantly lower volumes. Two factors acted as shock absorbers, offsetting the impact of the weaker volumes on our results. One was the decline in the value of the Canadian dollar versus the American dollar, which had a net positive translation impact on the conversion of U.S. dollar-denominated revenues and expenses into Canadian dollars. The second was the two-month lag in CN's fuel surcharge catching up to lower fuel prices."

“The North American economy is in recession, and we do not know how long or deep it will be,” said Harrison. “And, although overall freight demand is much weaker, the basic driver of our business – demand for reliable, efficient, cost-effective transportation – remains intact. To meet our long-term objectives, we will continue to maintain pricing discipline and pursue opportunities that extend beyond business-cycle considerations.

“At the same time we will continue to do what’s necessary to manage our assets and costs effectively in response to lower traffic volumes. CN, as one of the rail industry’s most efficient operators, is well positioned to face the challenges of the current economic environment, and we are committed to making additional productivity improvements.”

Harrison added: “CN has a very resilient business model and a highly talented and dedicated team of railroaders, as demonstrated by our 2008 results. Looking ahead, 2009 will present even greater challenges, but we expect to continue to deliver value to our customers and shareholders.”

Fourth-quarter 2008 results

Fourth-quarter 2008 results from operations were affected by significant weakness in almost all markets, primarily as a result of the current economic environment.

Revenue ton-miles, a measurement of the relative weight and distance of rail freight transported by the Company, declined by 10 per cent during the quarter versus the comparable period of 2007.

Revenues for the final quarter of 2008 increased 13 per cent to C\$2,200 million. The increase was mainly due to the positive C\$230-million translation impact of the weaker Canadian dollar on U.S. dollar-denominated revenues and freight rate increases, including a higher fuel surcharge resulting from year-over-year net increases in applicable fuel prices. These gains were partly offset by lower volumes in almost all commodity groups due to weak market conditions. In addition, the decision of the Canadian Transportation Agency (CTA) to retroactively reduce rail revenue entitlement for grain transportation and the CTA’s determination that CN exceeded the revenue cap for the 2007-08 crop year reduced grain revenues by C\$26 million. Associated penalties of C\$4 million increased the Company’s casualty and other expense.

Operating expenses for the fourth quarter increased by 15 per cent to C\$1,380 million, primarily owing to the C\$145-million negative translation impact of the weaker Canadian dollar on U.S. dollar-denominated expenses, and increased casualty and other and labor and fringe benefit expenses. These factors were partly offset by lower fuel costs, as a result of a decrease in the average price per U.S. gallon of fuel during the quarter.

Operating income increased 11 per cent to C\$820 million, while the operating ratio, defined as operating expenses as a percentage of revenues, increased by 0.6 of a point to 62.7 per cent.

The fluctuation of the Canadian dollar relative to the U.S. dollar, which affects the conversion of the Company’s U.S. dollar-denominated revenues and expenses, increased fourth-quarter 2008 net income by approximately C\$45 million, or 10 cents per diluted share.

Full-year 2008 results

Net income for 2008 was C\$1,895 million, or C\$3.95 per diluted share, compared with net income of C\$2,158 million, or C\$4.25 per diluted share, for 2007.

CN's 2008 net income included a deferred income tax recovery of C\$117 million (C\$0.24 per diluted share), of which C\$83 million was due to the resolution of various income tax matters and adjustments related to tax filings of prior years, C\$23 million was due to lower corporate income tax rates in Canada, and C\$11 million was due to net capital losses arising from the reorganization of a subsidiary. Excluding the deferred income tax recovery, adjusted 2008 net income was C\$1,778 million, or C\$3.71 per diluted share. (1)

Included in 2007 net income was a net deferred income tax recovery of C\$328 million (C\$0.64 per diluted share), resulting mainly from the enactment of corporate income tax rate changes in Canada, and gains on the sales of the CSC of C\$64 million after-tax (C\$0.13 per diluted share) and the Company's investment in EWS of C\$41 million after-tax (C\$0.08 per diluted share). Excluding benefits from favourable tax adjustments and major asset sales, adjusted net income for 2007 was C\$1,725 million, or C\$3.40 per diluted share. (1)

Operating income for 2008 increased to C\$2,894 million from C\$2,876 million in 2007.

Revenues for 2008 increased by seven per cent to C\$8,482 million, mainly due to freight rate increases, of which approximately half were related to a higher fuel surcharge resulting from year-over-year net increases in applicable fuel prices, and higher volumes in specific commodity groups, particularly metals and minerals, intermodal, and coal, which also reflect the negative impact of a conductors' strike on first-quarter 2007 volumes.

These gains were partly offset by lower volumes due to weakness in specific markets, particularly forest products and automotive, the impact of harsh weather conditions in Canada and the U.S. Midwest during first-quarter 2008, and reduced grain volumes as a result of depleted stockpiles. In addition, the decision of the CTA to retroactively reduce rail revenue entitlement for grain transportation and the CTA's determination that CN exceeded the revenue cap for the 2007-08 crop year reduced grain revenues by C\$26 million. Associated penalties of C\$4 million increased the Company's casualty and other expense.

In the first nine months of the year, CN experienced a C\$245 million negative translation impact of the stronger Canadian dollar on U.S. dollar-denominated revenues that was almost entirely offset in the fourth quarter as a result of the weakened Canadian dollar.

Revenue ton-miles, a measurement of the relative weight and distance of rail freight transported by the Company, declined by three per cent in 2008 from the 2007 level.

CN's 2008 operating expenses increased by 11 per cent, to C\$5,588 million, mainly due to higher fuel costs and increases in purchased services and material and in casualty and other expenses. These factors were partly offset by lower labor and fringe benefits expense.

In the first nine months of the year, CN experienced a positive C\$145 million translation impact of the stronger Canadian dollar on U.S. dollar-denominated expenses that was almost entirely offset in the fourth quarter as a result of the weakened Canadian dollar.

The operating ratio was 65.9 per cent in 2008, compared with 63.6 per cent in 2007, a 2.3-point increase.

The fluctuation of the Canadian dollar relative to the U.S. dollar reduced 2008 net income by approximately C\$10 million, or C\$0.02 per diluted share.

The financial results in this news release were determined on the basis of U.S. Generally Accepted Accounting Principles (U.S. GAAP).

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

Forward-Looking Statements

This news release contains forward-looking statements. CN cautions that, by their nature, forward-looking statements involve risk, uncertainties and assumptions. Implicit in these statements, particularly in respect of long-term growth opportunities, is the Company's assumption that such growth opportunities are less affected by the current situation in the North American and global economies. 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. The current situation in financial markets is adding a substantial amount of risk to the North American economy, which is already in a recession, and to the global economy, which is significantly slowing down. The Company cautions that its results could differ materially from those expressed or implied in such forward-looking 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, labor 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 "Management's Discussion and Analysis" in CN's annual and interim reports and 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 risks.

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)
(In millions, except per share data)

	Three months ended December 31		Year ended December 31	
	2008	2007 (Unaudited)	2008	2007
Revenues	\$ 2,200	\$ 1,941	\$ 8,482	\$ 7,897
Operating expenses				
Labor and fringe benefits	397	340	1,674	1,701
Purchased services and material	301	259	1,137	1,045
Fuel	304	307	1,403	1,026
Depreciation and amortization	197	173	725	677
Equipment rents	79	60	262	247
Casualty and other	102	66	387	325
Total operating expenses	1,380	1,205	5,588	5,021
Operating income	820	736	2,894	2,876
Interest expense	(110)	(85)	(375)	(336)
Other income	19	159	26	166
Income before income taxes	729	810	2,545	2,706
Income tax recovery (expense)	(156)	23	(650)	(548)
Net income	\$ 573	\$ 833	\$ 1,895	\$ 2,158
Earnings per share				
Basic	\$ 1.22	\$ 1.70	\$ 3.99	\$ 4.31
Diluted	\$ 1.21	\$ 1.68	\$ 3.95	\$ 4.25