HONDA MOTOR CO LTD
Form 6-K
November 04, 2016
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No.1-7628

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF OCTOBER 2016

COMMISSION FILE NUMBER: 1-07628

HONDA GIKEN KOGYO KABUSHIKI KAISHA

(Name of registrant)

HONDA MOTOR CO., LTD.

(Translation of registrant s name into English)

1-1, Minami-Aoyama 2-chome, Minato-ku, Tokyo 107-8556, Japan

(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 x 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): ¨

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): ¨

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Exhibit 1:

On October 31, 2016, Honda Motor Co., Ltd. (the Company) announced its consolidated financial results for the fiscal second quarter and the fiscal first half year ended September 30, 2016.

Exhibit 2:

The Company revised its forecast for consolidated financial results for the fiscal year ending March 31, 2017, which was announced on May 13, 2016, and announced forecast for unconsolidated financial results for the fiscal year ending March 31, 2017.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONDA GIKEN KOGYO KABUSHIKI KAISHA

(HONDA MOTOR CO., LTD.)

/s/ Shinji Suzuki
Shinji Suzuki
General Manager
Finance Division
Honda Motor Co., Ltd.

Date: November 4, 2016

October 31, 2016

HONDA MOTOR CO., LTD. REPORTS

CONSOLIDATED FINANCIAL RESULTS

FOR THE FISCAL SECOND QUARTER AND

THE FISCAL FIRST HALF YEAR ENDED SEPTEMBER 30, 2016

Tokyo, October 31, 2016   Honda Motor Co., Ltd. today announced its consolidated financial results for the fiscal second quarter and the fiscal first half year ended September 30, 2016.

Second Quarter Results

Honda s consolidated profit for the period attributable to owners of the parent for the fiscal second quarter ended September 30, 2016 totaled JPY 177.0 billion (USD 1,751 million), an increase of 38.6% from the same period last year. Earnings per share attributable to owners of the parent for the quarter amounted to JPY 98.26 (USD 0.97), an increase of JPY 27.38 (USD 0.27) from JPY 70.88 for the corresponding period last year. One Honda American Depository Share represents one common share.

Consolidated sales revenue for the quarter amounted to JPY 3,262.9 billion (USD 32,268 million), a decrease of 9.9% from the same period last year, due primarily to unfavorable foreign currency translation effects, despite increased revenue in automobile business, financial services business and motorcycle business operations.

Consolidated operating profit for the quarter amounted to JPY 228.0 billion (USD 2,256 million), an increase of 38.4% from the same period last year, due primarily to continuing cost reduction efforts, decreased SG&A expenses, including quality related expenses, and the impact of pension accounting treatment, despite unfavorable foreign currency effects.

Share of profit of investments accounted for using the equity method for the quarter amounted to JPY 39.8 billion (USD 394 million), an increase of 16.6% from the corresponding period last year.

Consolidated profit before income taxes for the quarter totaled JPY 270.5 billion (USD 2,676 million), an increase of 28.3% from the same period last year.

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Business Segment

Motorcycle Business

For the three months ended September 30, 2015 and 2016

	Unit (Thousands)							
	Honda Group Unit Sales				Consolidated Unit Sale			
	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016	Change	%	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016	Change	%
Motorcycle business	4,370	**4,538**	168	3.8	2,740	**3,042**	302	11.0
Japan	50	**33**	- 17	- 34.0	50	**33**	- 17	- 34.0
North America	75	**71**	- 4	- 5.3	75	**71**	- 4	- 5.3
Europe	48	**48**	0	0.0	48	**48**	0	0.0
Asia	3,851	**4,125**	274	7.1	2,221	**2,629**	408	18.4
Other Regions	346	**261**	- 85	- 24.6	346	**261**	- 85	- 24.6

Note: Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries.

With respect to Honda s sales for the fiscal second quarter by business segment, in motorcycle business operations, sales revenue from sales to external customers decreased 9.7%, to JPY 409.3 billion (USD 4,048 million) from the same period last year due mainly to unfavorable foreign currency translation effects, despite increased consolidated unit sales. Operating profit totaled JPY 59.5 billion (USD 589 million), an increase of 21.3% from the same period last year, due primarily to continuing cost reduction efforts, an increase in sales volume and model mix, and the impact of pension accounting treatment, despite unfavorable foreign currency effects.

Automobile Business

For the three months ended September 30, 2015 and 2016

	Unit (Thousands)							
	Honda Group Unit Sales				Consolidated Unit Sales			
	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016	Change	%	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016	Change	%
Automobile business	1,139	**1,218**	79	6.9	889	**890**	1	0.1
Japan	168	**156**	- 12	- 7.1	155	**143**	- 12	- 7.7
North America	473	**479**	6	1.3	473	**479**	6	1.3
Europe	42	**45**	3	7.1	42	**45**	3	7.1
Asia	395	**482**	87	22.0	158	**167**	9	5.7
Other Regions	61	**56**	- 5	- 8.2	61	**56**	- 5	- 8.2

Note: Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries. Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in consolidated sales revenue to the external customers in our Automobile business. Accordingly, they are not included in Consolidated Unit Sales, but are included in Honda Group Unit Sales of our Automobile business.

In automobile business operations, sales revenue from sales to external customers decreased 10.7%, to JPY 2,341.6 billion (USD 23,157 million) from the same period last year due mainly to unfavorable foreign currency translation effects. Operating profit totaled JPY 131.8 billion (USD 1,304 million), an increase of 94.5% from the same period last year, due primarily to continuing cost reduction efforts, decreased SG&A expenses, including quality related expenses, and the impact of pension accounting treatment, despite unfavorable foreign currency effects.

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Financial Services Business

Sales revenue from customers in the financial services business operations decreased 4.1%, to JPY 443.2 billion (USD 4,383 million) from the same period last year due mainly to unfavorable foreign currency translation effects, despite an increase in revenue from operating leases and sales of returned lease vehicles. Operating profit decreased 27.2% to JPY 37.7 billion (USD 374 million) from the same period last year due mainly to increased SG&A expenses and unfavorable foreign currency effects.

Power Product and Other Businesses

For the three months ended September 30, 2015 and 2016

	Unit (Thousands) Honda Group Unit Sales/ Consolidated Unit Sales			
	Three months ended Sep. 30, 2015	**Three months ended Sep. 30, 2016**	**Change**	**%**
Power product business	1,275	**1,240**	- 35	- 2.7
Japan	115	**87**	- 28	- 24.3
North America	532	**522**	- 10	- 1.9
Europe	174	**165**	- 9	- 5.2
Asia	346	**376**	30	8.7
Other Regions	108	**90**	- 18	- 16.7

Note: Honda Group Unit Sales is the total unit sales of completed power products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed power products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed power products of Honda and its consolidated subsidiaries. In power product business, there is no discrepancy between Honda Group Unit Sales and Consolidated Unit Sales for the three months ended September 30, 2015 and 2016, since no affiliates and joint ventures accounted for using the equity method were involved in the sale of Honda power products.

Sales revenue from sales to external customers in power product and other businesses decreased 18.5%, to JPY 68.7 billion (USD 680 million) from the same period last year, due mainly to unfavorable foreign currency translation effects. Honda reported an operating loss of JPY 1.0 billion (USD 10 million), an improvement of JPY 2.8 billion (USD 28 million) from the same period last year, due mainly to decreased SG&A expenses and the impact of pension accounting treatment. Operating loss for aircraft and aircraft engines, included in Power product and other businesses, totaled JPY 10.6 billion (USD 105 million), an improvement of JPY 1.7 billion (USD 18 million) from the same period last year.

Explanatory note:

United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of JPY 101.12=USD 1, the mean of the telegraphic transfer selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo foreign exchange market on September 30, 2016.

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First Half Year Results

Honda s consolidated profit for the period attributable to owners of the parent for the fiscal first half year ended September 30, 2016 totaled JPY 351.7 billion, an increase of 12.1% from the same period last year. Earnings per share attributable to owners of the parent for the fiscal first half year amounted to JPY 195.19, an increase of JPY 21.08 from JPY 174.11 for the same period last year.

Consolidated sales revenue for the fiscal first half year amounted to JPY 6,734.6 billion, a decrease of 8.1% from the same period last year, due primarily to unfavorable foreign currency translation effects, despite increased revenue in automobile business, financial services business, and motorcycle business operations.

Consolidated operating profit for the fiscal first half year amounted to JPY 494.9 billion, an increase of 22.5% from the same period last year, due primarily to continuing cost reduction efforts, increased sales revenue and model mix, decreased SG&A expenses, including quality related expenses, and the impact of pension accounting treatment, despite the effects of the 2016 Kumamoto Earthquake and unfavorable foreign currency effects.

Share of profit of investments accounted for using the equity method for the fiscal first half year amounted to JPY 67.0 billion, a decrease of 7.5% from the corresponding period last year.

Consolidated profit before income taxes for the fiscal first half year totaled JPY 559.0 billion, an increase of 13.3% from the same period last year.

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Business Segment

Motorcycle Business

For the six months ended September 30, 2015 and 2016

	Unit (Thousands)							
	Honda Group Unit Sales				Consolidated Unit Sales			
	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016	Change	%	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016	Change	%
Motorcycle business	8,475	**8,890**	415	4.9	5,285	**5,873**	588	11.1
Japan	97	**62**	- 35	- 36.1	97	**62**	- 35	- 36.1
North America	150	**149**	- 1	- 0.7	150	**149**	- 1	- 0.7
Europe	114	**120**	6	5.3	114	**120**	6	5.3
Asia	7,422	**8,010**	588	7.9	4,232	**4,993**	761	18.0
Other Regions	692	**549**	- 143	- 20.7	692	**549**	- 143	- 20.7

Note: Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries.

With respect to Honda s sales for the fiscal first half year by business segment, in motorcycle business operations, sales revenue from sales to external customers decreased 9.1%, to JPY 841.7 billion from the same period last year, due mainly to unfavorable foreign currency translation effects, despite increased consolidated unit sales. Operating profit totaled JPY 90.7 billion, a decrease of 13.3% from the same period last year, due primarily to a decrease in profit attributable to decreased sales volume and model mix, including the effects of the 2016 Kumamoto Earthquake and unfavorable foreign currency effects, despite continuing cost reduction effects and the impact of pension accounting treatment.

Automobile Business

For the six months ended September 30, 2015 and 2016

	Unit (Thousands)							
	Honda Group Unit Sales				Consolidated Unit Sales			
	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016	Change	%	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016	Change	%
Automobile business	2,286	**2,431**	145	6.3	1,777	**1,798**	21	1.2
Japan	315	**302**	- 13	- 4.1	290	**275**	- 15	- 5.2
North America	970	**989**	19	2.0	970	**989**	19	2.0
Europe	74	**90**	16	21.6	74	**90**	16	21.6
Asia	800	**935**	135	16.9	316	**329**	13	4.1
Other Regions	127	**115**	- 12	- 9.4	127	**115**	- 12	- 9.4

Note: Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries. Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in consolidated sales revenue to the external customers in our Automobile business. Accordingly, they are not included in Consolidated Unit Sales, but are included in Honda Group Unit Sales of our Automobile business.

In automobile business operations, sales revenue from sales to external customers decreased 8.6%, to JPY 4,840.6 billion from the same period last year due mainly to unfavorable foreign currency translation effects, despite increased consolidated unit sales. Operating profit totaled JPY 316.3 billion, an increase of 59.4% from the same period last year, due primarily to continuing cost reduction efforts, an increase in sales volume and model mix, decreased SG&A expenses, including quality related expenses, and the impact of pension accounting treatment, despite unfavorable foreign currency effects.

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Financial Services Business

Sales revenue from customers in the financial services business operations decreased 3.0%, to JPY 907.8 billion from the same period last year due mainly to unfavorable foreign currency translation effects, despite an increase in revenue from operating leases and sales of returned lease vehicles. Operating profit decreased 15.3% to JPY 88.3 billion from the same period last year due mainly to unfavorable foreign currency effects.

Power Product and Other Businesses

For the six months ended September 30, 2015 and 2016

	Unit (Thousands) Honda Group Unit Sales/Consolidated Unit Sales			
	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016	Change	%
Power product business	2,833	**2,728**	- 105	- 3.7
Japan	200	**146**	- 54	- 27.0
North America	1,336	**1,291**	- 45	- 3.4
Europe	405	**390**	- 15	- 3.7
Asia	686	**736**	50	7.3
Other Regions	206	**165**	- 41	- 19.9

Note: Honda Group Unit Sales is the total unit sales of completed power products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed power products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed power products of Honda and its consolidated subsidiaries. In power product business, there is no discrepancy between Honda Group Unit Sales and Consolidated Unit Sales for the six months ended September 30, 2015 and 2016, since no affiliates and joint ventures accounted for using the equity method were involved in the sale of Honda power products.

Sales revenue from sales to external customers in power product and other businesses decreased by 13.4% to JPY 144.3 billion from the same period last year, due mainly to unfavorable foreign currency translation effects. Honda reported an operating loss of JPY 0.5 billion, an improvement of JPY 2.8 billion from the same period last year, due mainly to decreased SG&A expenses and the impact of pension accounting treatment. Operating loss for aircraft and aircraft engines, included in Power product and other businesses, totaled JPY 19.4 billion, an improvement of JPY 5.0 billion from the same period last year.

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Consolidated Statements of Financial Position for the Fiscal First Half Ended September 30, 2016

Total assets decreased by JPY 1,240.8 billion, to JPY 16,988.4 billion from March 31, 2016, mainly due to foreign currency translation effects, despite an increase in Equipment on operating leases. Total liabilities decreased by JPY 1,013.2 billion, to JPY 10,184.2 billion from March 31, 2016, mainly due to a decrease in Retirement benefit liabilities and foreign currency translation effects, despite an increase in Financing liabilities. Total equity decreased by JPY 227.5 billion, to JPY 6,804.2 billion from March 31, 2016 due mainly to foreign currency translation effects, despite increased Retained earnings attributable to increased Profit for the period.

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Consolidated Statements of Cash Flows for the Fiscal First Half Ended September 30, 2016

Consolidated cash and cash equivalents on September 30, 2016 decreased by JPY 77.7 billion from March 31, 2016, to JPY 1,679.7 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the same period of the previous fiscal year, are as follows:

Cash flows from operating activities

Net cash provided by operating activities amounted to JPY 392.1 billion for the fiscal first half year ended September 30, 2016. Cash inflows from operating activities decreased by JPY 313.3 billion compared with the same period of the previous fiscal year due mainly to a decrease in cash received from customers, including unfavorable foreign currency translation effects, despite decreased payments for parts and raw materials.

Cash flows from investing activities

Net cash used in investing activities amounted to JPY 340.6 billion. Cash outflows from investing activities decreased by JPY 87.8 billion compared with the same period of the previous fiscal year, due mainly to a decrease in Payments for additions to property, plant and equipment.

Cash flows from financing activities

Net cash provided by financing activities amounted to JPY 20.9 billion. Cash inflows from financing activities increased by JPY 64.3 billion compared with the same period of the previous fiscal year, due mainly to a decrease in repayments of financing liabilities.

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Forecasts for the Fiscal Year Ending March 31, 2017

In regard to the forecasts of the financial results for the fiscal year ending March 31, 2017, Honda projects consolidated results to be as shown below:

Fiscal year ending March 31, 2017

	Yen (billions)	Changes from FY 2016
Sales revenue	13,400.0	- 8.2%
Operating profit	650.0	+ 29.1%
Profit before income taxes	770.0	+ 21.2%
Profit for the year attributable to owners of the parent	415.0	+ 20.5%

	Yen
Earnings per share attributable to owners of the parent	
Basic and diluted	230.26

Note: The forecasts are based on the assumption that the average exchange rates for the Japanese yen to the U.S. dollar will be JPY 103 for the full year ending March 31, 2017.

The reasons for the increases or decreases in the forecasts of the operating profit, and profit before income taxes for the fiscal year ending March 31, 2017 from the previous year are as follows.

	Yen (billions)
Revenue, model mix, etc.	+ 28.6
Cost reduction, the effect of raw material cost fluctuations, etc.	+ 161.0
SG&A expenses	+ 303.0
R&D expenses	- 60.0
Currency effect	- 370.0
The impact of pension accounting treatment	+ 84.0
Operating profit compared with fiscal year ended March 31, 2016	+ 146.6
Share of profit of investments accounted for using the equity method	+ 13.9
Finance income and finance costs	- 26.0
Profit before income taxes compared with fiscal year ended March 31, 2016	+ 134.5

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Dividend per Share of Common Stock

The Board of Directors of Honda Motor Co., Ltd., at its meeting held on October 31, 2016, resolved to make the quarterly dividend JPY 22 per share of common stock, the record date of which is September 30, 2016. The total expected annual dividend per share of common stock for the fiscal year ending March 31, 2017, is JPY 88 per share.

This announcement contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on management s assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that the actual results of the Company could differ materially from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in the principal markets of the Company, its consolidated subsidiaries and its affiliates accounted for by the equity-method, and fluctuation of foreign exchange rates, as well as other factors detailed from time to time.

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Consolidated Financial Summary

For the three months and six months ended September 30, 2015 and 2016

Financial Highlights

	Yen (millions)			
	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016
Sales revenue	3,621,277	**3,262,968**	7,326,039	**6,734,698**
Operating profit	164,842	**228,081**	404,128	**494,924**
Profit before income taxes	210,939	**270,566**	493,266	**559,058**
Profit for the period attributable to owners of the parent	127,751	**177,096**	313,788	**351,795**
	Yen			
Earnings per share attributable to owners of the parent				
Basic and diluted	70.88	**98.26**	174.11	**195.19**

	U.S. Dollar (millions)	
	Three months ended Sep. 30, 2016	Six months ended Sep. 30, 2016
Sales revenue	**32,268**	**66,601**
Operating profit	**2,256**	**4,894**
Profit before income taxes	**2,676**	**5,529**
Profit for the period attributable to owners of the parent	**1,751**	**3,479**
	U.S. Dollar	
Earnings per share attributable to owners of the parent		
Basic and diluted	**0.97**	**1.93**

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[1] Condensed Consolidated Statements of Financial Position

	Yen (millions)	
	Mar. 31, 2016	**Sep. 30, 2016**
Assets		
Current assets:		
Cash and cash equivalents	1,757,456	**1,679,709**
Trade receivables	826,714	**691,742**
Receivables from financial services	1,926,014	**1,683,563**
Other financial assets	103,035	**83,595**
Inventories	1,313,292	**1,241,950**
Other current assets	315,115	**287,479**
Total current assets	6,241,626	**5,668,038**
Non-current assets:		
Investments accounted for using the equity method	593,002	**585,680**
Receivables from financial services	3,082,054	**2,796,866**
Other financial assets	335,203	**328,229**
Equipment on operating leases	3,678,111	**3,619,530**
Property, plant and equipment	3,139,564	**2,906,854**
Intangible assets	824,939	**800,446**
Deferred tax assets	180,828	**143,411**
Other non-current assets	153,967	**139,392**
Total non-current assets	11,987,668	**11,320,408**
Total assets	18,229,294	**16,988,446**
Liabilities and Equity		
Current liabilities:		
Trade payables	1,128,041	**984,853**
Financing liabilities	2,789,620	**2,575,905**
Accrued expenses	384,614	**331,887**
Other financial liabilities	89,809	**74,250**
Income taxes payable	45,872	**44,013**
Provisions	513,232	**433,163**
Other current liabilities	519,163	**487,205**
Total current liabilities	5,470,351	**4,931,276**
Non-current liabilities:		
Financing liabilities	3,736,628	**3,491,870**
Other financial liabilities	47,755	**44,718**
Retirement benefit liabilities	660,279	**522,364**
Provisions	264,978	**209,407**
Deferred tax liabilities	789,830	**772,233**
Other non-current liabilities	227,685	**212,349**
Total non-current liabilities	5,727,155	**5,252,941**
Total liabilities	11,197,506	**10,184,217**
Equity:		

Common stock	86,067	**86,067**
Capital surplus	171,118	**171,118**
Treasury stock	(26,178)	**(26,182)**
Retained earnings	6,194,311	**6,483,674**
Other components of equity	336,115	**(150,141)**
Equity attributable to owners of the parent	6,761,433	**6,564,536**
Non-controlling interests	270,355	**239,693**
Total equity	7,031,788	**6,804,229**
Total liabilities and equity	18,229,294	**16,988,446**

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[2] Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income

Condensed Consolidated Statements of Income

For the three months ended September 30, 2015 and 2016

	Yen (millions)	
	Three months ended Sep. 30, 2015	**Three months ended Sep. 30, 2016**
Sales revenue	3,621,277	**3,262,968**
Operating costs and expenses:		
Cost of sales	(2,828,705)	**(2,522,871)**
Selling, general and administrative	(479,067)	**(384,621)**
Research and development	(148,663)	**(127,395)**
Total operating costs and expenses	(3,456,435)	**(3,034,887)**
Operating profit	164,842	**228,081**
Share of profit of investments accounted for using the equity method	34,199	**39,861**
Finance income and finance costs:		
Interest income	6,302	**7,368**
Interest expense	(4,307)	**(3,099)**
Other, net	9,903	**(1,645)**
Total finance income and finance costs	11,898	**2,624**
Profit before income taxes	210,939	**270,566**
Income tax expense	(68,598)	**(78,828)**
Profit for the period	142,341	**191,738**
Profit for the period attributable to:		
Owners of the parent	127,751	**177,096**
Non-controlling interests	14,590	**14,642**
	Yen	
Earnings per share attributable to owners of the parent		
Basic and diluted	70.88	**98.26**

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Condensed Consolidated Statements of Comprehensive Income

For the three months ended September 30, 2015 and 2016

	Yen (millions)	
	Three months ended Sep. 30, 2015	Three months ended Sep. 30, 2016
Profit for the period	142,341	**191,738**
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		**11,561**
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	(15,206)	**11,828**
Share of other comprehensive income of investments accounted for using the equity method	(2,557)	**1,285**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(278,654)	**(76,918)**
Share of other comprehensive income of investments accounted for using the equity method	(16,120)	**(21,421)**
Total other comprehensive income, net of tax	(312,537)	**(73,665)**
Comprehensive income for the period	(170,196)	**118,073**
Comprehensive income for the period attributable to:		
Owners of the parent	(165,942)	**107,204**
Non-controlling interests	(4,254)	**10,869**

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Condensed Consolidated Statements of Income

For the six months ended September 30, 2015 and 2016

	Yen (millions)	
	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016
Sales revenue	7,326,039	**6,734,698**
Operating costs and expenses:		
Cost of sales	(5,714,351)	**(5,200,531)**
Selling, general and administrative	(913,555)	**(746,284)**
Research and development	(294,005)	**(292,959)**
Total operating costs and expenses	(6,921,911)	**(6,239,774)**
Operating profit	404,128	**494,924**
Share of profit of investments accounted for using the equity method	72,514	**67,083**
Finance income and finance costs:		
Interest income	14,094	**14,808**
Interest expense	(9,132)	**(6,191)**
Other, net	11,662	**(11,566)**
Total finance income and finance costs	16,624	**(2,949)**
Profit before income taxes	493,266	**559,058**
Income tax expense	(147,049)	**(177,454)**
Profit for the period	346,217	**381,604**
Profit for the period attributable to:		
Owners of the parent	313,788	**351,795**
Non-controlling interests	32,429	**29,809**
	Yen	
Earnings per share attributable to owners of the parent		
Basic and diluted	174.11	**195.19**

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Condensed Consolidated Statements of Comprehensive Income

For the six months ended September 30, 2015 and 2016

	Yen (millions)	
	Six months ended Sep. 30, 2015	**Six months ended Sep. 30, 2016**
Profit for the period	346,217	**381,604**
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		**11,561**
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	(12,628)	**907**
Share of other comprehensive income of investments accounted for using the equity method	(2,193)	**(799)**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(199,042)	**(453,298)**
Share of other comprehensive income of investments accounted for using the equity method	(8,404)	**(57,685)**
Total other comprehensive income, net of tax	(222,267)	**(499,314)**
Comprehensive income for the period	123,950	**(117,710)**
Comprehensive income for the period attributable to:		
Owners of the parent	110,091	**(117,593)**
Non-controlling interests	13,859	**(117)**

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[3] Condensed Consolidated Statements of Changes in Equity

As of and for the six months ended September 30, 2015

	Yen (millions)							
	Equity attributable to owners of the parent							
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of April 1, 2015	86,067	171,118	(26,165)	6,083,573	794,034	7,108,627	274,194	7,382,821
Comprehensive income for the period								
Profit for the period				313,788		313,788	32,429	346,217
Other comprehensive income, net of tax					(203,697)	(203,697)	(18,570)	(222,267)
Total comprehensive income for the period				313,788	(203,697)	110,091	13,859	123,950
Reclassification to retained earnings				(252)	252			
Transactions with owners and other								
Dividends paid				(79,300)		(79,300)	(30,739)	(110,039)
Purchases of treasury stock			(7)			(7)		(7)
Equity transactions and others							(2,600)	(2,600)
Total transactions with owners and other			(7)	(79,300)		(79,307)	(33,339)	(112,646)
Balance as of September 30, 2015	86,067	171,118	(26,172)	6,317,809	590,589	7,139,411	254,714	7,394,125

As of and for the six months ended September 30, 2016

	Yen (millions)							
	Equity attributable to owners of the parent							
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of April 1, 2016	**86,067**	**171,118**	**(26,178)**	**6,194,311**	**336,115**	**6,761,433**	**270,355**	**7,031,788**
Comprehensive income for the period								
Profit for the period				**351,795**		**351,795**	**29,809**	**381,604**
Other comprehensive income, net of tax					**(469,388)**	**(469,388)**	**(29,926)**	**(499,314)**
Total comprehensive income for the period				**351,795**	**(469,388)**	**(117,593)**	**(117)**	**(117,710)**
Reclassification to retained earnings				**16,868**	**(16,868)**			
Transactions with owners and other								
Dividends paid				**(79,300)**		**(79,300)**	**(30,545)**	**(109,845)**
Purchases of treasury stock			**(4)**			**(4)**		**(4)**

Equity transactions and others								
Total transactions with owners and other			**(4)**	**(79,300)**		**(79,304)**	**(30,545)**	**(109,849)**
Balance as of September 30, 2016	**86,067**	**171,118**	**(26,182)**	**6,483,674**	**(150,141)**	**6,564,536**	**239,693**	**6,804,229**

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[4] Consolidated Statements of Cash Flows

	Yen (millions)		
	Six months ended Sep. 30, 2015	**Six months ended Sep. 30, 2016**	
Cash flows from operating activities:			
Profit before income taxes	493,266	**559,058**	
Depreciation, amortization and impairment losses excluding equipment on operating leases	326,092	**328,087**	
Share of profit of investments accounted for using the equity method	(72,514)	**(67,083)**	
Finance income and finance costs, net	2,707	**(17,878)**	
Interest income and interest costs from financial services, net	(80,846)	**(59,724)**	
Changes in assets and liabilities		**)**	85

Income before cumulative effect of change in accounting policy		**367**		208		**924**		613
Cumulative effect of change in accounting policy (net of applicable taxes)		-		-		-		(48)
Net income Canadian GAAP	**$**	**367**	$	208	**$**	**924**	$	565

Property capitalization

Effective January 1, 2004, the Company changed its capitalization policies under Canadian GAAP, on a prospective basis, to conform with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3061 Properties, Plant and Equipment. The change was made in response to the CICA Handbook Section 1100, Generally Accepted Accounting Principles, issued in July 2003. This section provides new accounting guidance as to what constitutes GAAP in Canada and its sources, thereby codifying a GAAP hierarchy. The section also establishes that when financial statements are prepared in accordance with regulatory or legislative requirements that are in conflict with the new GAAP hierarchy, they cannot be described as being in accordance with Canadian GAAP.

The Company s accounting for Properties under Canadian GAAP had been based on the rules and regulations of the Canadian Transportation Agency s (CTA) Uniform Classification of Accounts, which for railways in Canada, were considered Canadian GAAP prior to the issuance of Section 1100. Under the CTA rules, the Company capitalized only the material component of track replacement costs, to the extent it met the Company s minimum threshold for capitalization. In accordance with the CICA Handbook Section 3061 Properties, Plant and Equipment, the Company now capitalizes the cost of labor, material and related overheads associated with track replacement activities provided they meet the Company s minimum threshold for capitalization. Also, all major expenditures for work that extends the useful life and/or improves the functionality of bridges, other structures and freight cars, are capitalized.

This change effectively harmonizes the Company s Canadian and U.S. GAAP capitalization policies. However, since the change was applied prospectively, there continues to be a difference in depreciation and amortization expense between Canadian and U.S. GAAP relating to the difference in the amounts previously capitalized under Canadian and U.S. GAAP as at January 1, 2004.

Stock-based compensation

Effective January 1, 2003, the Company adopted the fair value based approach of the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The Company retroactively applied the fair value method of accounting to all awards of employee stock options granted, modified or settled on or after January 1, 2002. Under U.S. GAAP, effective January 1, 2003, the Company voluntarily adopted the recommendations of SFAS No. 123, Accounting for Stock-Based Compensation, and applied the fair value based approach prospectively to all awards of employee stock options granted, modified or settled on or after January 1, 2003. Compensation cost attributable to employee stock options granted prior to January 1, 2003 continues to be a reconciling difference.

Interest expense

In the first quarter of 2004, in anticipation of future debt issuances, the Company had entered into treasury lock transactions for a notional amount of U.S.$380 million to fix the treasury component on these future debt

issuances. Under U.S. GAAP, these derivatives were accounted for as cash flow hedges whereby the cumulative change in the market value of the derivative instruments was recorded in Other comprehensive income. On July 9, 2004, upon the pricing and subsequent issuance of U.S.$500 million 6.25% Debentures due 2034, the Company settled these treasury-rate locks and realized a gain of $12 million. Under U.S. GAAP, this gain was recorded in Other comprehensive income and will be amortized and recorded into income, as a reduction of interest expense, over the term of the debt based on the interest payment schedule. Under Canadian GAAP, this gain was recorded immediately into income, as a reduction of interest expense.

Cumulative effect of change in accounting policy

In 2003, under U.S. GAAP, in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," the Company changed its accounting policy for certain track structure assets to exclude removal costs as a component of depreciation expense where the inclusion of such costs would result in accumulated depreciation balances exceeding the historical cost basis of the assets. As a result, a cumulative benefit of $75 million, or $48 million after tax, was recorded for the amount of removal costs accrued in accumulated depreciation on certain track structure assets at January 1, 2003. Under Canadian GAAP, the recommendations of the CICA Handbook Section 3110, "Asset Retirement Obligations," which are similar to those under SFAS No. 143 (U.S. GAAP), were effective for the Company's fiscal year beginning January 1, 2004 and did not have an initial material impact on the Canadian GAAP financial statements since removal costs, as a component of depreciation expense, have not resulted in accumulated depreciation balances exceeding the historical cost basis of the assets.

(ii) Reconciliation of significant balance sheet items

(In millions)	**September 30 2004**	December 31 2003	September 30 2003
Current assets - U.S. GAAP	**$ 1,415**	$ 1,127	$ 1,131
Derivative instruments	**(123)**	(33)	(21)
Other	**(2)**	(2)	-
Current assets - Canadian GAAP	**$ 1,290**	$ 1,092	$ 1,110

Properties - U.S. GAAP	**$**	**20,022**	$	18,305	$	18,478
Property capitalization, net of depreciation		**(3,004)**		(3,072)		(2,961)
Cumulative effect of change in accounting policy		**(75)**		(75)		(75)
Properties - Canadian GAAP	**$**	**16,943**	$	15,158	$	15,442
Other assets and deferred charges - U.S. GAAP	**$**	**947**	$	905	$	844
Derivative instruments		**(27)**		(5)		(3)
Other		**(1)**		-		(1)
Other assets and deferred charges - Canadian GAAP	**$**	**919**	$	900	$	840
Deferred income tax liability - U.S. GAAP	**$**	**4,673**	$	4,550	$	4,489
Cumulative effect of prior years adjustments to income		**(1,204)**		(1,071)		(1,071)
Income taxes on current period Canadian GAAP adjustments to income		**19**		(133)		(85)
Cumulative effect of change in accounting policy		**(27)**		(27)		(27)
Income taxes on translation of U.S. to Canadian GAAP adjustments		**17**		15		8
Income taxes on minimum pension liability adjustment		**10**		10		13
Income taxes on derivative instruments		**(48)**		(12)		(8)
Income taxes on settlement of interest rate swap recorded in other comprehensive income		**(4)**		-		-
Income tax rate enactments		**38**		38		86
Other		**(8)**		(5)		(4)
Deferred income tax liability - Canadian GAAP	**$**	**3,466**	$	3,365	$	3,401

CANADIAN NATIONAL RAILWAY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

(ii) Reconciliation of significant balance sheet items (continued)

(In millions)		**September 30 2004**		December 31 2003		September 30 2003
Other liabilities and deferred credits - U.S. GAAP	**$**	**1,671**	$	1,258	$	1,252
Stock-based compensation		**(17)**		(20)		(20)
Minimum pension liability		**(30)**		(30)		(38)

Other		**(3)**		-		-
Other liabilities and deferred credits - Canadian GAAP	**$**	**1,621**	$	1,208	$	1,194
Capital stock - U.S. GAAP	**$**	**4,742**	$	4,664	$	4,642
Capital reorganization		**(1,300)**		(1,300)		(1,300)
Stock-based compensation		**(5)**		(17)		(35)
Foreign exchange loss on convertible preferred securities		**(12)**		(12)		(12)
Costs related to the sale of shares		**33**		33		33
Share repurchase program		**162**		162		162
Capital stock - Canadian GAAP	**$**	**3,620**	$	3,530	$	3,490
Contributed surplus - U.S. GAAP	**$**	**-**	$	-	$	-
Dividend in kind with respect to land transfers		**(248)**		(248)		(248)
Costs related to the sale of shares		**(33)**		(33)		(33)
Other transactions and related income tax effect		**(18)**		(18)		(18)
Share repurchase program		**(24)**		(24)		(24)
Capital reorganization		**489**		489		489
Contributed surplus - Canadian GAAP	**$**	**166**	$	166	$	166
Accumulated other comprehensive loss - U.S. GAAP	**$**	**(57)**	$	(129)	$	(116)
Unrealized foreign exchange loss on translation of U.S. to Canadian GAAP adjustments, net of applicable taxes		**66**		63		51
Derivative instruments, net of applicable taxes		**(102)**		(26)		(16)
Unamortized gain on settlement of interest rate swap, net of applicable taxes		**(8)**		-		-
Income tax rate enactments		**34**		34		32
Minimum pension liability, net of applicable taxes		**20**		20		24
Other		**4**		-		-
Currency translation - Canadian GAAP	**$**	**(43)**	$	(38)	$	(25)
Retained earnings - U.S. GAAP	**$**	**4,612**	$	3,897	$	3,720
Cumulative effect of prior years adjustments to income		**(1,928)**		(1,696)		(1,696)
Cumulative effect of change in accounting policy		**(48)**		(48)		(48)
Current period adjustments to net income		**42**		(232)		(177)
Share repurchase program		**(138)**		(138)		(138)
Cumulative dividend on convertible preferred securities		**(38)**		(38)		(38)
Capital reorganization		**811**		811		811
Dividend in kind with respect to land transfers		**248**		248		248
Other transactions and related income tax effect		**18**		18		18
Retained earnings - Canadian GAAP	**$**	**3,579**	$	2,822	$	2,700

CANADIAN NATIONAL RAILWAY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

Income taxes

In the fourth quarter of 2003, under U.S. GAAP, the Company recorded an increase to its net deferred income tax liability resulting from the enactment of higher corporate tax rates in the province of Ontario. As a result, the Company recorded deferred income tax expense of $79 million and $2 million in the Consolidated Statement of Income and Other comprehensive income, respectively. For Canadian GAAP, the corresponding increase to the net deferred income tax liability was $33 million. The difference in the expense recorded reflects a larger net deferred tax liability position under U.S. GAAP.

Derivative instruments

Under U.S. GAAP, pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, the Company records in its balance sheet the fair value of derivative instruments used in its hedging activities. Changes in the market value of these derivative instruments have been recorded in Accumulated other comprehensive income, a separate component of Shareholders equity. There are no similar requirements under Canadian GAAP.

Minimum pension liability

Under U.S. GAAP, one of the Company s pension plan had an accumulated benefit obligation in excess of the fair value of the plan assets. Under U.S. GAAP, this gave rise to an additional minimum pension liability and as a result, an intangible asset was recognized up to the amount of the unrecognized prior service cost and the difference has been recorded in Accumulated other comprehensive income, a separate component of Shareholders equity. There are no requirements under Canadian GAAP to record a minimum pension liability adjustment.

Convertible preferred securities

In July 2002, the Convertible preferred securities (Securities) of the Company were converted into common shares. Prior to such date, the Securities were treated as equity under Canadian GAAP, whereas under U.S. GAAP they were treated as debt. Consequently, the initial costs related to the issuance of the Securities, net of amortization, which were previously deferred and amortized for U.S. GAAP, have since been reclassified to equity.

Shareholders equity

As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of $811 million as of June 30, 1995 through a reduction of the capital stock in the amount of $1,300 million, and created a contributed surplus of $489 million. Such a reorganization within Shareholders equity is not permitted under U.S. GAAP.

Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings.

Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Capital stock.

Under Canadian GAAP, the excess in cost over the stated value resulting from the repurchase of shares was allocated first to Capital stock, then to Contributed surplus and finally to Retained earnings. Under U.S. GAAP, the excess has been allocated to

Capital stock followed by Retained earnings.

For Canadian and U.S. GAAP purposes, the Company designates the U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange loss from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange loss has been included as part of Accumulated other comprehensive income, a separate component of Shareholders equity, as required under SFAS No. 130, Reporting Comprehensive Income.

(iii) Consolidated statement of cash flows

For the three and nine months ended September 30, 2004, cash provided from (used by) operating, investing and financing activities presented under U.S. and Canadian GAAP were the same.

For the three and nine months ended September 30, 2003, cash provided from operating activities and cash used by investing activities under Canadian GAAP, would increase by the same amount, $139 million and $315 million, respectively, due to the difference in the Company s property capitalization policies that existed prior to January 1, 2004 as discussed herein.

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CANADIAN NATIONAL RAILWAY COMPANY

SELECTED RAILROAD STATISTICS *(U.S. GAAP)*

	Three months ended September 30		Nine months ended September 30	
	2004 (1)	2003	**2004 (1)**	2003
	(Unaudited)			
Statistical operating data				
Freight revenues ($ millions)	**1,621**	1,367	**4,596**	4,230
Gross ton miles (GTM) (millions)	**83,039**	76,169	**244,171**	229,993
Revenue ton miles (RTM) (millions)	**44,266**	39,936	**129,768**	119,678
Carloads (thousands)	**1,226**	1,031	**3,394**	3,113
Route miles (includes Canada and the U.S.)	**19,303**	17,539	**19,303**	17,539
Employees (end of period)	**23,466**	22,293	**23,466**	22,293
Employees (average during period)	**23,332**	22,357	**22,283**	22,040
Productivity				
Operating ratio (%)	**65.4**	67.9	**67.6**	71.1
Freight revenue per RTM (cents)	**3.66**	3.42	**3.54**	3.53
Freight revenue per carload ($)	**1,322**	1,326	**1,354**	1,359
Operating expenses per GTM (cents)	**1.35**	1.26	**1.33**	1.35
Labor and fringe benefits expense per GTM (cents)	**0.56**	0.54	**0.55**	0.56
GTMs per average number of employees (thousands)	**3,559**	3,407	**10,958**	10,435

Diesel fuel consumed (U.S. gallons in millions)	**95**	88	**288**	275
Average fuel price ($/U.S. gallon)	**1.31**	1.13	**1.26**	1.23
GTMs per U.S. gallon of fuel consumed	**874**	866	**848**	836
Safety indicators				
Injury frequency rate per 200,000 person hours	**2.8**	3.5	**2.7**	3.0
Accident rate per million train miles	**2.0**	1.9	**1.5**	2.0
Financial ratios				
Debt to total capitalization ratio (% at end of period)	**36.7**	37.8	**36.7**	37.8

(1) Includes BC Rail and GLT from dates of acquisition.

Certain of the comparative statistical data and related productivity measures have been restated to reflect changes to estimated statistical data previously reported.

CANADIAN NATIONAL RAILWAY COMPANY

SUPPLEMENTARY INFORMATION *(U.S. GAAP)*

	Three months ended September 30			Nine months ended September 30		
	2004(1)	2003	Variance Fav (Unfav)	**2004**(1)	2003	Variance Fav (Unfav)
			(Unaudited)			
Revenue ton miles (millions)						
Petroleum and chemicals	**8,373**	7,515	11%	**24,274**	22,933	6%
Metals and minerals	**4,345**	3,421	27%	**12,332**	10,084	22%
Forest products	**10,480**	8,811	19%	**28,465**	25,706	11%
Coal	**3,451**	3,495	(1%)	**10,708**	11,022	(3%)
Grain and fertilizers	**8,787**	8,272	6%	**28,693**	24,217	18%
Intermodal	**8,090**	7,802	4%	**22,817**	23,336	(2%)
Automotive	**740**	620	19%	**2,479**	2,380	4%
	44,266	39,936	11%	**129,768**	119,678	8%
Freight revenue / RTM (cents)						

Total freight revenue per RTM	**3.66**	3.42	7%	**3.54**	3.53	-
Business units:						
Petroleum and chemicals	**3.57**	3.39	5%	**3.46**	3.48	(1%)
Metals and minerals	**4.67**	3.80	23%	**4.22**	3.84	10%
Forest products	**3.84**	3.65	5%	**3.74**	3.76	(1%)
Coal	**2.06**	1.63	26%	**1.98**	1.82	9%
Grain and fertilizers	**2.63**	2.66	(1%)	**2.63**	2.70	(3%)
Intermodal	**3.75**	3.59	4%	**3.58**	3.57	-
Automotive	**15.14**	16.61	(9%)	**15.53**	16.34	(5%)
Carloads (thousands)						
Petroleum and chemicals	**162**	149	9%	**476**	449	6%
Metals and minerals	**256**	105	144%	**552**	297	86%
Forest products	**177**	148	20%	**478**	446	7%
Coal	**121**	112	8%	**364**	360	1%
Grain and fertilizers	**132**	134	(1%)	**416**	389	7%
Intermodal	**314**	323	(3%)	**888**	963	(8%)
Automotive	**64**	60	7%	**220**	209	5%
	1,226	1,031	19%	**3,394**	3,113	9%
Freight revenue / carload (dollars)						
Total freight revenue per carload	**1,322**	1,326	-	**1,354**	1,359	-
Business units:						
Petroleum and chemicals	**1,846**	1,711	8%	**1,765**	1,777	(1%)
Metals and minerals	**793**	1,238	(36%)	**944**	1,303	(28%)
Forest products	**2,271**	2,176	4%	**2,228**	2,166	3%
Coal	**587**	509	15%	**582**	558	4%
Grain and fertilizers	**1,750**	1,642	7%	**1,817**	1,684	8%
Intermodal	**965**	867	11%	**920**	866	6%
Automotive	**1,750**	1,717	2%	**1,750**	1,861	(6%)

(1) Includes BC Rail and GLT from dates of acquisition.

Certain of the comparative statistical data and related productivity measures have been restated to reflect changes to estimated statistical data previously reported.

CANADIAN NATIONAL RAILWAY COMPANY

NON-GAAP MEASURES *(U.S. GAAP)*

Free cash flow

The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company s ability to generate cash after the payment of capital expenditures and dividends. Free cash flow does not have any standardized meaning prescribed by GAAP and may, therefore, not be comparable to similar measures presented by other companies. The Company defines free cash flow as cash provided from operating activities, excluding changes in the level of accounts receivable sold under the securitization program, less investing activities and dividends paid, and adjusted for significant acquisitions as they are not indicative of normal day-to-day investments in the Company s asset base, calculated as follows:

	Three months ended September 30		**Nine months ended September 30**	
In millions	**2004**	2003	**2004**	2003
Cash provided from operating activities	**$ 556**	$ 526	**$ 1,451**	$ 1,388
Less:				
Investing activities	**(1,304)**	(307)	**(2,069)**	(701)
Dividends paid	**(56)**	(48)	**(167)**	(144)
Cash provided (used) before financing activities	**(804)**	171	**(785)**	543
Adjustments:				
Change in accounts receivable sold	**(7)**	(66)	**8**	(88)
Acquisition of BC Rail	**984**	-	**984**	-
Acquisition of GLT	**(6)**	-	**547**	-
Free cash flow	**$ 167**	$ 105	**$ 754**	$ 455

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canadian National Railway Company

Date: October 28, 2004

By: /s/ Sean Finn

Name: Sean Finn
Title: Senior Vice President Public Affairs, Chief Legal Officer and Corporate Secretary