



## North America's Railroad

### **NEWS RELEASE**

### **CN reports Q4-2009 net income of C\$582 million, or C\$1.23 per diluted share**

***Excluding line-sale to Metrolinx and deferred income tax recovery,  
adjusted Q4-2009 net income was C\$424 million or C\$0.90 per diluted share***

**MONTREAL, Jan. 26, 2010** — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the fourth quarter and year ended Dec. 31, 2009.

#### **Fourth-quarter and full-year 2009 highlights**

- Net income and diluted earnings per share for the final quarter of 2009 increased two per cent from the year-earlier period to C\$582 million and C\$1.23, respectively. The results included an after-tax gain of C\$59 million (C\$0.12 per diluted share) from a line-sale to Metrolinx, a transit agency in Toronto, and a deferred income tax recovery of C\$99 million (C\$0.21 per diluted share).
- Excluding these items, adjusted fourth-quarter 2009 net income was C\$424 million, or C\$0.90 per diluted share, compared with adjusted net income of C\$531 million, or C\$1.12 per diluted share, excluding a deferred income tax recovery, for the year-earlier period. <sup>(1)</sup>
- Fourth-quarter 2009 revenues declined 14 per cent from a year earlier to C\$1,882 million.
- Fourth-quarter operating ratio was 65.3 per cent, compared with 62.7 per cent for the same quarter of 2008.
- Free cash flow for full-year 2009 was C\$790 million, compared with 2008's C\$794 million. <sup>(1)</sup>

Net income for full-year 2009 decreased two per cent from 2008 to C\$1,854 million, with diluted earnings per share declining one per cent to C\$3.92. The 2009 results included after-tax gains of C\$194 million (C\$0.41 per diluted share) from two line-sales; a deferred income tax recovery of C\$157 million (C\$0.33 per diluted share), mainly resulting from the enactment of lower provincial corporate income tax rates; and after-tax acquisition-related costs of C\$30 million (C\$0.06 per diluted share) related to CN's purchase of the Elgin, Joliet and Eastern Railway Company. Excluding these items, adjusted 2009 net income was C\$1,533 million (C\$3.24 per diluted share), compared with adjusted 2008 net income, excluding a deferred income tax recovery, of C\$1,778 million, or C\$3.71 per diluted share. <sup>(1)</sup>

Claude Mongeau, president and chief executive officer, said: "CN overcame a number of challenges during the fourth quarter, ranging from weather and operational disruptions in Western Canada to a five-day strike by locomotive engineers in Canada. In addition, the stronger Canadian dollar adversely affected our earnings. Despite these challenges, the final quarter of 2009 saw continued sequential improvement in CN's traffic levels and an easing in year-over-year volume comparisons. Carloadings were flat year-over-year, but up four per cent versus the third quarter of 2009."

Fourth-quarter year-over-year growth was in coal, automotive, grain and fertilizers, and petroleum and chemicals volumes as the economic recovery began taking hold. Intermodal volumes declined three per cent, metals and mineral carloadings were down by two per cent, and forest products markets remain depressed.

Mongeau said: "Throughout the year, the CN team raised the bar on operational execution, tightly controlled costs, and generated solid free cash flow and increased shareholder value through the monetization of underutilized assets. As we go forward, we will build on the improvements in operating metrics we achieved in 2009, including train velocity, lower freight car dwell times in terminals, and improved locomotive fuel efficiency."

#### **Foreign currency impact on results**

The fluctuation of the Canadian dollar relative to the U.S. dollar, which affects the conversion of CN's U.S.-dollar-denominated revenues and expenses, reduced fourth-quarter 2009 net income by approximately C\$35 million (C\$0.07 per diluted share), while increasing full-year 2009 net income by C\$25 million (C\$0.05 per diluted share).

#### **2010 outlook, increased dividend, new share buy-back program <sup>(2)</sup>**

Mongeau said: "CN believes there will be gradual economic recovery in 2010. A number of our markets appear to be improving, and we expect to take advantage of a number of opportunities this year. We are still facing some headwinds, but are aiming for double-digit growth in diluted earnings per share (EPS) in 2010 over adjusted diluted EPS of C\$3.24 in 2009, with 2010 free cash flow in the order of C\$700 million." <sup>(1)</sup>

One of the headwinds CN will face in 2010 is the Canadian-U.S. dollar exchange rate, which averaged C\$0.88 in 2009 but is expected to be substantially higher in 2010. In addition, CN anticipates increased expenses in 2010, including higher depreciation expense and substantially lower credits for casualty expense.

Mongeau added: "Given the anticipated economic recovery, CN's strong balance sheet and its ability to produce solid cash flow, I'm pleased that the Company's Board of Directors has approved a seven per cent increase in CN's quarterly common-share dividend, and a new share repurchase program to buy-back up to 15 million CN common shares."

#### **Fourth-quarter 2009 revenues and expenses**

The 14 per cent decline in fourth-quarter revenues largely resulted from the negative translation impact of the year-over-year stronger Canadian dollar on U.S.-dollar-denominated revenues; a reduction in the fuel surcharge resulting from year-over-year

decreases in applicable fuel prices, and lower freight volumes in most markets because of economic conditions. These factors were partly offset by freight rate increases.

All commodity groups experienced decreased revenues: forest products (26 per cent), metals and minerals (20 per cent), petroleum and chemicals (16 per cent), intermodal (13 per cent), automotive (13 per cent), coal (eight per cent), and grain and fertilizers (seven per cent).

Operating expenses for fourth-quarter 2009 declined by 11 per cent to C\$1,229 million. The decrease was primarily owing to the positive translation impact of the stronger Canadian dollar on U.S.-dollar-denominated expenses, lower fuel costs, and reduced expenses for casualty and other and purchased services and material. These factors were partly offset by higher labor and fringe-benefits expense.

### **Full-year 2009 revenues and expenses**

Revenues for the year decreased by 13 per cent to C\$7,367 million, mainly due to significantly lower freight volumes in almost all markets as a result of economic conditions in the North American and global economies, and a reduction in the fuel surcharge resulting from year-over-year decreases in applicable fuel prices and lower volumes. These factors were partly offset by freight rate increases and the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues.

All commodity groups saw revenue declines for 2009: automotive (24 per cent), metals and minerals (23 per cent), forest products (20 per cent), intermodal (15 per cent), petroleum and chemicals (six per cent), coal (three per cent), and grain and fertilizers (three per cent). Revenue ton-miles for the year declined 10 per cent from 2008.

Operating expenses for 2009 decreased by 11 per cent to C\$4,961 million, mainly due to lower fuel costs and reduced expenses for purchased services and material, partly reflecting the impact of reduced freight volumes as well as management's cost-reduction initiatives. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S.-dollar-denominated expenses.

CN's operating ratio for 2009 increased by 1.4 points to 67.3 per cent when compared to 2008.

- (1) Please see discussion and reconciliation of non-GAAP adjusted performance measures in the attached supplementary schedule, Non-GAAP Measures.
- (2) See Forward-Looking Statements for a summary of the key assumptions and risks regarding CN's 2010 outlook.

### **Forward-Looking Statements**

Certain information included in this news release are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. CN cautions that, by their nature, these forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Such forward-looking statements are not guarantees of future performance and involve known

and unknown risks, uncertainties and other factors which may cause the actual results of performance of the Company or the rail industry to be materially different from the outlook or any future results or performance implied by such statements. Key assumptions used in determining forward-looking information are set forth below.

### **Key assumptions**

*CN made a number of economic and market assumptions in preparing its 2010 outlook. The Company is forecasting that North American industrial production for the year will increase in the range of three to four per cent. Of particular importance is that CN expects U.S. housing starts to be about 750,000 units and U.S. motor vehicles sales to be approximately 11.5 million units for the year. In addition, CN is assuming a 2010/2011 Canadian grain crop in line with the five-year average, and that in 2010 the crop will be complemented by a good carryover stock from 2009. With these assumptions, CN is targeting carload growth in the high-single-digit range, along with pricing improvement of about four per cent. CN expects the Canadian-U.S. exchange rate to be in the range of C\$0.95 to par, and that the price of crude oil (West Texas Intermediate) to be about US\$75 to US\$80 per barrel. In 2010, CN plans to invest approximately C\$1.5 billion in capital programs, of which more than C\$1 billion will be targeted on track infrastructure to maintain a safe railway and improve the productivity and fluidity of the network.*

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

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

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

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