



## North America's Railroad

### **NEWS RELEASE**

## **CN reports Q1-2010 net income of C\$511 million, or C\$1.08 per diluted share**

***Excluding rail-line sale, adjusted Q1-2010 net income  
was C\$380 million, or C\$0.80 per diluted share***

**MONTREAL, April 26, 2010** — CN (TSX: CNR)(NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2010.

### **First-quarter 2010 highlights**

- Net income increased 21 per cent from the year-earlier quarter to C\$511 million, with diluted earnings per share (EPS) rising 20 per cent to C\$1.08. The results included an after-tax gain of C\$131 million, or C\$0.28 per diluted share, from a rail-line sale to a Toronto-area transit agency.
- Excluding the gain on the rail-line sale, CN reported adjusted diluted first-quarter 2010 EPS of C\$0.80, compared with adjusted diluted EPS of C\$0.64 for the same quarter of 2009. <sup>(1)</sup>
- Revenues increased six per cent to C\$1,965 million, while carloadings rose 16 per cent and revenue ton-miles increased 14 per cent.
- Operating income increased 25 per cent to C\$603 million.
- CN's operating ratio was 69.3 per cent, compared with an adjusted operating ratio of 71.7 per cent for first-quarter 2009. <sup>(1)</sup>
- Free cash flow increased to C\$493 million from C\$207 million for the year-earlier period. <sup>(1)</sup>

Claude Mongeau, president and chief executive officer, said: "I am very pleased with CN's first-quarter results in terms of both earnings growth and free cash flow generation. We delivered a solid winter operating performance, allowing us to accommodate increased freight volumes at low incremental cost and significantly improve service to help our customers take advantage of the stronger than expected economic recovery."

### **Revised 2010 outlook <sup>(2)</sup>**

CN's favorable first-quarter results and assumption of a stronger economic recovery going forward have led the Company to revise its 2010 earnings estimate upward, even though CN faces the prospect of a higher than anticipated Canadian dollar. In percentage terms, CN is now aiming for solid double-digit growth in 2010 adjusted diluted EPS over adjusted diluted EPS of C\$3.24 in 2009, and expects free cash flow in the order of C\$1 billion for the year. <sup>(1)</sup> CN's revised 2010 free cash flow outlook is a result

of the Company's good first-quarter performance, its higher earnings forecast for the year, and cash proceeds from the Toronto rail-line sale.

Mongeau said: "Our team is building momentum. We are focused on operational excellence to drive network velocity and to innovate on the service front – our goal is to offer our customers a better transportation product to help them compete in their end markets. If the economy continues on its recovery trend, increased traffic levels and solid execution should help CN produce strong financial results for its shareholders in 2010 and beyond."

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

Although CN reports its earnings in Canadian dollars, a large portion of its revenues and expenses is denominated in U.S. dollars, which is affected by exchange-rate fluctuations. On a constant currency basis, the fluctuation of the Canadian dollar relative to the U.S. dollar had the effect of reducing CN's first-quarter net income by C\$41 million, or C\$0.09 per diluted share. <sup>(1)</sup>

### **First quarter 2010 revenues, traffic volumes and expenses**

The six per cent rise in first-quarter revenues mainly resulted from higher freight volumes in all commodity groups as a result of improving economic conditions in North America and globally; a higher fuel surcharge owing to year-over-year increases in applicable fuel prices and higher volumes; and freight rate increases. These factors were partly offset by the negative translation impact of the stronger Canadian dollar on U.S.-dollar-denominated revenues.

Revenues increased for automotive (48 per cent), coal (28 per cent), intermodal (10 per cent), metals and minerals (six per cent), and grain and fertilizers (four per cent). Revenues declined six per cent for petroleum and chemicals and five per cent for forest products.

Revenue ton-miles, measuring the relative weight and distance of rail freight transported by CN, increased 14 per cent from the year-earlier period.

Rail freight revenue per revenue ton-mile, a measurement of yield defined as revenue earned on the movement of a ton of freight over one mile, decreased seven per cent from the first quarter of 2009, largely because of the negative translation impact of the stronger Canadian dollar. This was partially offset by the impact of a higher fuel surcharge, freight rate increases, and a decrease in the average length of haul.

Operating expenses for the first quarter of 2010 declined one per cent, largely because of the positive translation impact of the stronger Canadian dollar on U.S.-dollar-denominated expenses, the impact of costs related to the acquisition of the Elgin, Joliet and Eastern Railway Company that were recorded in the year-earlier quarter, and a reduction in equipment rents. These factors were partially offset by higher fuel costs and increased labor and fringe benefits expenses.

- (1) 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 constitutes "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 or 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**

*CN is revising its 2010 outlook, first issued on Jan. 26, 2010, in the news release announcing the Company's fourth-quarter and full-year 2009 financial results.*

### **Current 2010 outlook:**

*CN, in percentage terms, is aiming for solid double-digit growth in 2010 adjusted diluted EPS over adjusted diluted EPS of C\$3.24 in 2009, with free cash flow for 2010 in the order of C\$1 billion. This outlook is based on the following assumptions: 2010 North American industrial production increasing in the range of five per cent; U.S. housing starts to be about 675,000 units; low double-digit carload growth, along with pricing improvement of about 3.5 per cent; Canadian-U.S. exchange rate for the year to be in the range of par; the price of crude oil (West Texas Intermediate) to be about US\$85; and plans to invest approximately C\$1.6 billion in capital programs. In addition, CN continues to expect that U.S. motor vehicle sales will be approximately 11.5 million units for 2010. The Company also continues to assume the 2010/2011 Canadian grain-crop will be in line with the five-year average, and that in 2010 the crop will be complemented by a good carryover stock from 2009.*

### **Previous 2010 outlook:**

*CN had previously aimed for double-digit growth in 2010 adjusted diluted EPS, with free cash flow in the order of C\$700 million. Previous assumptions included 2010 North American industrial production increasing in the range of three to four per cent; U.S. housing starts to be about 750,000 units; high single-digit carload growth, along with pricing improvement of about four per cent; the Canadian-U.S. exchange rate in the range of C\$0.95 to par; the price of crude oil (West Texas Intermediate) to be about US\$75 to US\$80 per barrel; and plans to invest approximately C\$1.5 billion in capital programs.*

Important risk 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 risk factors.

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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