MONTREAL — CN today reported its financial and operating results for the third quarter ended Sept. 30, 2009.

Third-quarter 2009 highlights

* Net income declined to C$461 million, or C$0.97 per diluted share, from year earlier net income of C$552 million, or C$1.16 per diluted share, largely as a result of lower freight volumes stemming from depressed North American and global economies.

* Revenues declined 18 per cent to C$1,845 million, carloads declined 15 per cent to 1,032 thousand, and revenue ton-miles declined 11 per cent.

* Operating expenses declined 18 per cent to C$1,156 million, reflecting lower year over year fuel prices and cost-containment measures in response to lower traffic.

* Operating income declined 18 per cent to C$689 million, while the operating ratio was essentially flat at 62.7 per cent.

* Nine-month 2009 free cash flow increased to C$657 million from C$483 million generated during the comparable period of 2008. (1)

Net income for the third quarter of 2009 and third quarter of 2008 included deferred income tax recoveries of C$15 million, or C$0.03 per diluted share, and C$41 million, or C$0.09 per diluted share, respectively. The recoveries in both years resulted from the resolution of various income tax matters and adjustments related to tax filings of prior years. Excluding these items, adjusted third-quarter 2009 net income was C$446 million, or C$0.94 per diluted share, compared with year-earlier adjusted net income of C$511 million, or C$1.07 per diluted share, a reduction of 12 per cent in diluted earnings per share. (1)

The year-over-year increase in the U.S. dollar relative to the Canadian dollar affected the conversion of CN's U.S.-dollar-denominated revenues and expenses, increasing third quarter 2009 net income by approximately C$15 million, or C$0.03 per diluted share.

E. Hunter Harrison, president and chief executive officer, said: “The third quarter of 2009 was another challenging one for CN, with significant weakness across markets affecting our freight volumes. Revenue ton-miles for the quarter declined 11 per cent, but that was a sequential improvement over the 14 per cent RTM reduction in the second quarter of this year.

“The CN team continued to focus on cost containment and productivity improvements during Q3-2009. And the team delivered. We kept the operating ratio essentially flat at 62.7 per cent and made solid operational gains -- system train speeds improved again, rising 11 per cent year-over-year, while the average dwell time for freight cars in our classification yards across the railroad declined by nine per cent from a year earlier. Equally important, our accident rate improved by eight per cent over the same period of 2008.

“It appears that several of our markets may have hit bottom. Our productivity gains during 2009 position us well for the eventual recovery in traffic.”

Third-quarter 2009 revenues, traffic volumes and expenses

The reduction in third-quarter 2009 revenues largely resulted from significantly lower freight volumes in almost all markets as a result of prevailing economic conditions in the North American and global economies; and the impact of a lower fuel surcharge due to year-over-year decreases in applicable fuel prices, as well as lower freight volumes. Partly offsetting these factors were the positive translation impact of the weaker Canadian dollar on U.S.-dollar-denominated revenues and freight rate increases.

All commodity groups saw revenue declines – metals and minerals (32 per cent), automotive (25 per cent), forest products (24 per cent), intermodal (20 per cent), petroleum and chemicals (11 per cent), coal (nine per cent), and grain and fertilizers (nine per cent).

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 by nine per cent in the third quarter, largely due to the impact of a lower fuel surcharge and an increase in the average length of haul. These factors were partly offset by the positive translation impact of the weaker Canadian dollar and freight rate increases.

The 18 per cent decline in operating expenses was primarily due to lower fuel costs, reduced expenses for purchased services and material, and lower casualty and other expenses. These factors were partially offset by the negative translation impact of the weaker Canadian dollar on U.S.-dollar-denominated expenses.