

BUILDING FOR THE FUTURE WITH NETWORK CAPACITY



Building more robust network capacity



Given expectations of continued solid freight volumes in the years ahead, CN is investing significantly to build for the future, increasing network capacity, resilience and fluidity across its network, including its Edmonton–Winnipeg and Winnipeg–Chicago corridors.

In 2014, CN committed more than C\$100 million to improve yards and install sections of double track, crossovers and high-speed switches on main lines in the two corridors. That followed a C\$100-million program in 2013 to increase capacity on CN’s main line between Edmonton and Winnipeg and the parallel secondary Prairie North Line (PNL). The PNL can also serve as a “relief valve” for the main corridor, providing flexibility and resilience to the network.

CN has invested in the former Elgin, Joliet and Eastern (EJ&E) network that encircles Chicago. The acquisition of the EJ&E in 2009 allowed CN – for the first time – to link its five rail lines entering Chicago from all directions into one seamless system. The EJ&E enables CN to avoid congested inner city rail corridors in connecting with its lines and principal interchange

partners. These advantages drive network fluidity and greatly help CN recover from weather-related operational challenges such as those experienced last winter. In addition, CN’s use of the EJ&E frees up capacity for other carriers on the Belt Railway of Chicago (BRC) and Indiana Harbor Belt (IHB) – a clear benefit for the entire Greater Chicago rail network.

By the end of 2014, CN had spent more than US\$125 million on infrastructure improvements to the former EJ&E network, such as improved connections, track extensions and signalling. CN has also invested more than US\$100 million for upgrades to improve the capacity and efficiency of the former EJ&E’s Kirk Yard in Gary, Ind., now CN’s principal rail car classification and interchange yard in the Chicago area.

In addition, CN has spent roughly US\$80 million to date on environmental and safety mitigation, as well as fulfilling CN’s commitment in the Voluntary Mitigation Agreements CN reached with 28 EJ&E communities. CN will spend approximately US\$45 million more in 2015-2016 to complete two grade separations in Illinois mandated by the Surface Transportation Board.



WITH THE NEXT GENERATION



Building the next generation of CN railroaders

CN is devoting significant resources to onboarding and training a new generation of CN railroaders across its network.

The imperative for the investment is clear – since 2010 CN has hired 14,000 people to replace retiring or departing employees and to accommodate the growth in freight traffic. In 2014 alone, CN onboarded more than 3,900 new employees.

The seismic shift in CN's workforce is evidenced by the fact that Generation Y – people in their 20s and 30s – now accounts for 40 per cent of the Company's workforce, the largest overall segment of the employee population.

As workforce renewal proceeded, CN recognized the need to institute new, comprehensive onboarding and training programs focused on instilling a strong safety culture in new employees and reinforcing it among current employees who are learning new skills or upgrading existing ones. To advance that objective, CN opened new training centres in Winnipeg, Man., and Homewood, Ill., in 2014, built at a cost of approximately \$55 million. The

Winnipeg centre hosts an average of 350 students a week from across Canada, while the facility in suburban Chicago accommodates an average of 250 students from across the U.S.

The training centres assure consistent, quality training with a modernized curriculum, coupled with skilled instructors, offering courses for jobs ranging from conductor to car mechanic, from track supervisor to signal maintainer. Employees receive hands-on training in indoor learning laboratories with equipment such as locomotive simulators and dispatcher stations. Outdoor labs with dedicated rolling stock and other equipment for field training are also a key focus.

Employees learn about the valuable role peer-to-peer communications, coaching, and mentoring play in safe railroading. Experienced Peer Conductor Trainers help ensure safe environments for student conductors, evaluating and guiding them during their progress toward full conductor qualification. Workforce renewal is a critical element in CN's objective to hire, retain and develop the talented railroaders who will maintain the Company's leadership role in the industry.

CN Campus, Winnipeg



CN Campus, Homewood



BUILDING FOR THE FUTURE THROUGH INNOVATION



Building trust with customers through an innovative tool – iAdvise



Innovation has been at the centre of CN's business agenda for years. From an initial focus on asset utilization driven by the *Precision Railroading* business model, CN has shifted its attention to balancing Operational and Service Excellence. Through a portfolio of initiatives called Customer FIRST, CN is innovating to address key customer pinch points, including the first mile and last mile of the shipment cycle. iAdvise, the latest initiative in CN's first-mile/last-mile strategy to communicate better with customers, built critical mass in 2014 when the program was rolled out for CN's largest customers, with smaller customers also coming on stream.

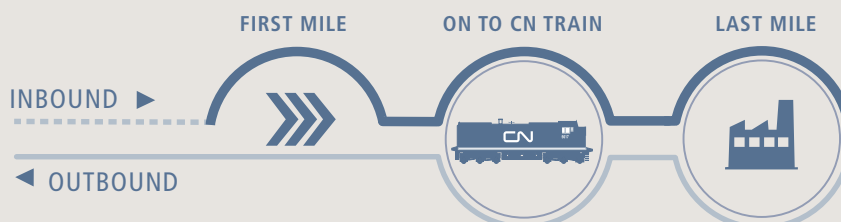
iAdvise began with notifying customers about service exceptions in a timelier manner to help them adjust their work plans. It has now evolved into an innovative set of tools and processes to further improve the way CN works and communicates with them.

Under CN's iAdvise program, operating employees send Local Service Notifications to customers. These messages are automatically sent when the Daily Operating Plan is committed to notify customers of work to be done – before the switching assignment leaves the classification yard.

In addition to receiving this notification, customers also have access to CN's new first-mile/last-mile report on eBusiness which includes CN's new Delivery Date commitment.

Together these tools provide CN customers with more visibility of traffic moving toward the destination yard along with the status of the cars at the yard and at their facilities. This increased visibility and accuracy – the customer, CN Service Delivery Representatives, Account Managers and Trainmasters all share common information – helps customers better plan their operations.

CN believes timely, accurate information is key to building customers' confidence. iAdvise has the potential to build their trust and elevate CN ahead of the competition.



WITH SAFETY AS A PRIORITY



Building safety into all we do

CN has an unwavering commitment to safety. Whether moving dangerous goods or any other freight on its network, CN knows that safe operations are the first priority and are critical to all stakeholders: employees, customers and the communities through which its trains travel.

Although CN was not involved with the Lac-Mégantic accident in 2013, following the tragedy, we took additional steps to further reduce the potential for and impact of accidents on our network. CN's approach to safety reflects a three-pronged strategy focusing on safety enhancements, the replacement of older model DOT-111 tank cars, and a structured community engagement program. Our drive to enhance safety has several components, including capital spending on our flaw detection capabilities to ensure a high-quality plant across the network. In addition, we have strengthened our robust train securement practices and restricted the speeds of trains hauling highly-flammable liquids. We have conducted corridor risk assessments, under which a multifunctional team evaluated the risks associated with CN's transportation of dangerous goods on key route corridors, with a view towards rail line proximity to urban populations and infrastructure,

environmentally sensitive areas, and railway operating practices.

CN supports regulations requiring the retrofitting or phase-out of older model DOT-111 tank cars used to transport flammable liquids, and a reinforced standard for new tank cars built in the future. On its own initiative, CN took steps in 2014 to structure freight rates that offer its customers an incentive to acquire more robust tank cars for the transportation of crude oil that meet higher safety standards. CN also announced a program to replace its own small fleet of legacy DOT-111 tank cars used to transport diesel locomotive fuel on its network.

CN believes that the rail industry can enhance safety by working more closely with communities. Toward that end, CN has been reaching out to municipal officials and their emergency responders along its North American rail network to review its comprehensive safety programs, to share in confidence relevant information on dangerous goods traffic, and to discuss emergency response planning and training. CN arranges to conduct training sessions for emergency responders when requested. The Company's outreach program involves almost 1,100 communities in Canada and approximately 870 communities and counties in the U.S., and supplements governmental and regulatory direction.

