

Precision Railroading



CN's *Precision Railroading* model is the foundation of the Company's industry-leading operational efficiency and productivity. *Precision Railroading* is an evolution of scheduled railroading, a concept that CN pioneered in the North American railroad industry when it introduced its service plan in 1998. Under the plan, CN runs regularly scheduled trains that leave at predetermined times. Each car or container has a specific trip plan that fits into the design of the train schedule.

Precision Railroading focuses clearly on what matters most to the customer – the carload and the customer's shipment, rather than the train itself. That same focus also exerts a strong influence on the development – and continuous improvement – of every CN process that affects delivery. As a result, the discipline to make things run like clockwork permeates the entire CN organization.

The best way to create value for shareholders is to create value for customers. For CN's customers, *Precision Railroading* enables better service, reduced inventory and capital requirements, reduced need for private fleets, and cost competitiveness with other transportation modes.

For CN, the quality of service afforded by the trip plan supports market share gains, revenue growth, and an industry-low operating ratio. With *Precision Railroading*, CN is more competitive and more reliable – with better cost control and improved asset utilization, both on its network and in its yards.

Constant focus on asset utilization

A cornerstone of *Precision Railroading* is a strong drive for enhanced asset utilization.

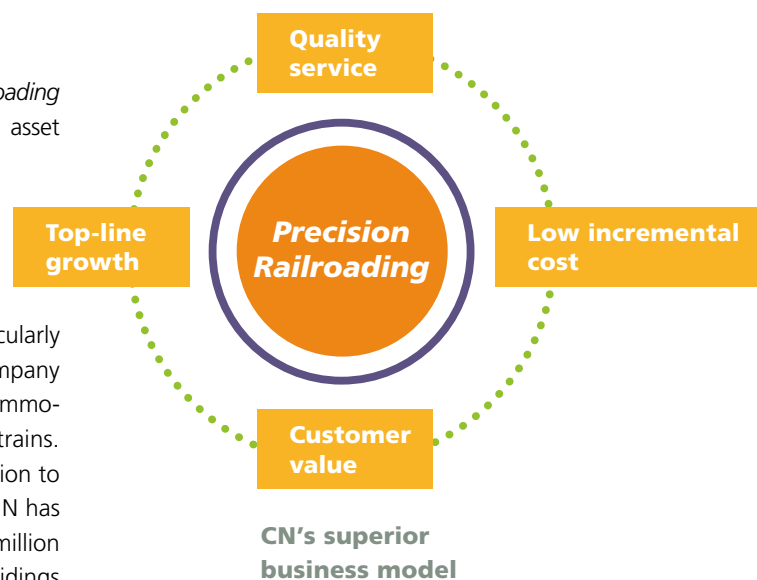
Longer sidings for longer, more efficient trains

Across CN's network, and particularly in Western Canada, the Company has extended sidings to accommodate longer, more efficient trains. Over the past 10 years, in addition to its installation of new sidings, CN has invested approximately \$325 million on siding extensions. Longer sidings enable CN to run longer trains, with compelling benefits – fewer train and crew starts; fewer locomotives; and faster, more reliable service.

Harrison Yard – reconfigured for enhanced productivity

In Memphis, a key CN operating hub, the Company recently completed a US\$100-million reconfiguration of its Harrison Yard switching facility. Memphis, a major freight distribution hub, is a key operating centre on CN's North American network, an important destination for freight traffic on its system, and the gateway to CN's rail operations in the Gulf of Mexico region. The city is also the largest U.S. location, outside of Chicago where CN interchanges traffic with four of the major U.S. Class I railroads.

CN reconfigured the Harrison Yard freight car switching facility to create a more efficient layout, including a small hump over which freight cars are directed by gravity into sorting



tracks for train make-up. The completion of the reconfiguration positions Harrison Yard to handle existing and future traffic growth in the region, more quickly and efficiently.

Locomotive renewal

CN implemented an aggressive locomotive-renewal program several years ago to continuously improve fuel efficiency and service reliability. The program has included both the purchase of new locomotives as well as the remanufacture of older units.

The new locomotive units are 15-20 per cent more fuel-efficient than their predecessors, comply fully with the latest regulatory requirements for reduced locomotive exhaust emissions, and support the Company's ability to provide improved service by reducing failures and bad orders.

Managing in a tough economic environment

CN, like many businesses, has been negatively affected by the current economic conditions. There have been significant volume reductions for most commodity groups, including Forest products, Automotive, Petroleum and chemicals, Metals and minerals and Intermodal. The Company's focus during these volatile times is to continue to operate safely and efficiently, to pursue its long-term business plan, to maintain a high level of service to customers, and to meet short- and long-term financial commitments. CN's *Precision Railroad* model is proving effective in guiding the necessary operational changes, and their execution, as the Company strives to quickly adjust costs to volume levels.

Distributed power

CN is reaping the benefits of improved productivity and better train handling as a result of the increased use of locomotives equipped with distributed power (DP) capability. Distributed power provides faster, smoother starting, improved braking, and reduced pulling forces at the head end of a

train. This enables CN to run fewer, longer, more efficient trains, which in turn maximizes the gains targeted from its extended siding program. In addition, DP significantly reduces the time required to charge a train's air brake system, a major benefit in cold-weather conditions. DP-equipped locomotives' higher-power and higher-adhesion capabilities mean fewer locomotives are required to pull the same train weight. With more optimum matching of motive power to train weight, DP locomotives save fuel and reduce emissions. CN has acquired 190 new locomotives since 2005, approximately 165 of which have distributed power technology. The remaining 25 new locomotives will be retrofitted with DP technology by year-end 2009.

Routing protocols

CN's continued expansion of its routing protocol effort has been a major initiative for the Company and the industry. CN currently has routing protocol agreements with all Class I railways.

Routing protocols serve to reduce rail-freight costs industry-wide by placing traffic on the most efficient routing – regardless of track ownership. The result is a structured plan to direct rail traffic flows through the most efficient interchange locations in order to improve both transit times and asset utilization – thereby making the most efficient use of existing capacity.

Co-production

Co-production arrangements, like routing protocols, are designed to increase efficiencies and improve service by optimizing the use of current industry infrastructure while maintaining shippers' competitive options.

CN currently has over 100 agreements in place covering key locations across its North American network.

Continuous improvement – measurement is key

Precision Railroad demands discipline to execute the trip plan, relentless measurement of results, and the use of such results to generate further improvements. Timely access to reliable operating data is therefore essential. The Company relies heavily on technology to develop, monitor and adapt its operating plan to changing business conditions.

Key operating metrics

Car velocity measures the average miles per day traveled by loaded and empty active cars on line, including system, foreign and private cars, providing a gauge of network fluidity and efficiency.

Cars per yard switching hour measures the number of cars that enter a terminal divided by the total crew hours worked at the terminal, providing an assessment of yard efficiency.

Gross ton-miles per train mile is used to monitor train efficiency and productivity, and is calculated as the average trailing tons per through train.

Main line gross ton-miles per available horsepower reflects the number of trailing gross ton-miles handled on through trains per available horsepower, where available horsepower is the total horsepower of the active road locomotives available for service. It is an important measure of the utilization of high-horsepower locomotives.

Terminal dwell or average through dwell time is a measure of yard throughput, calculated as the average time in hours between arrival and departure at a major terminal. It includes cars departing a major terminal that are preceded by a train arrival; transfer or local received at interchange; as well as cars on through trains.

Average train speed (miles per hour) is a measure of network fluidity and productivity, reflecting the average speed of through trains (based on the total number of train miles) divided by the total train hours. It includes system trains running on Company lines and system trains operating on non-system lines under trackage/running rights or as a detour.

Trip plan compliance measures the percent of cars completing their trip within the predetermined trip plan hours. It is a measure of customer service performance.

Items affecting comparability of results: Severe winter weather conditions and a major work stoppage in the first quarter of 2007.

