www.cn.ca

**Claude Mongeau**
President and
Chief Executive Officer

935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9
Canada
**T** 514-399-2963

Président-
directeur général

935, rue de La Gauchetière ouest
Montréal (Québec) H3B 2M9
Canada
claude.mongeau@cn.ca

September 15, 2010

The Honorable Daniel R. Elliott, III
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423
U.S.A

*Re: End of Year 2010 Railroad Service Outlook*

Dear Mr. Chairman:

Thank you for your August 9, 2010 letter requesting information about CN's plans in the United States to meet business demands through the end of this year.

End of Year Shipping Season

With respect to CN's plans to prepare for the end-of-year shipping season, CN's operations are guided by our precision railroading model, under which CN operates regularly scheduled trains that leave at predetermined times. CN handles individual car movements according to a specific plan aimed at meeting commitments to customers.

Because our operating plan recognizes anticipated seasonal changes in business and is able to accommodate other business changes that may occur, we do not make changes to our plan on a seasonal basis but we do make adjustments based on changes in customer forecasts throughout the year.

We currently expect a mild increase in overall freight volume in the fourth quarter of 2010 compared to the third quarter. The only significant growth is expected to come from seasonal grain shipments. CN's U.S. covered hopper fleet totals 3,949 cars; at present, 1,908 of these cars are active and 2,041 are stored.

.../2

Intermodal traffic has been growing, and we expect it to remain stable into the fourth quarter. We are carefully managing our intermodal car fleet, with a cross-functional initiative underway to drive up intermodal fleet efficiency.

We have ensured that we will have sufficient manpower to handle our customers' traffic. We have hired 442 new employees in the U.S. thus far in 2010, 208 of whom are transportation and engineering employees, and anticipate hiring another 60 to 70 before the end of the year. We also had 164 employees furloughed in the United States at the beginning of this year, and we have returned nearly all of these employees to service.

EJ&E Integration

Since assuming control on January 31, 2009 of the major portion of the Elgin, Joliet and Eastern Railway Company (EJ&E), following the Board's approval of the transaction, CN has been undertaking a careful, methodical integration of the EJ&E into CN's network. This integration is progressing well, and we report to the Board monthly various operational metrics.

CN has also been successful in its efforts with communities along the EJ&E to reach Voluntary Mitigation Agreements (VMA). We currently have VMAs with 23 of the 33 EJ&E communities, the most recent of which was finalized last month with Long Grove, Illinois. These 23 VMAs cover more than two-thirds of the population along the EJ&E line. CN also continues to implement the environmental mitigation conditions imposed by the STB in its decision approving the transaction, and we report quarterly to the Board on CN's compliance with the Board's environmental mitigation conditions imposed in the transaction.

Over the next few years, CN will work on a series of rail connections, line upgrades, and mitigation measures. It is expected that about US$75 million will be spent in 2010 for these activities.

Economic Investments in Freight Service Improvements

CN has continued to make significant investments in our infrastructure in 2010. We expect to invest approximately US$1.55 billion on capital programs system-wide this year, which is an increase of US$250 million compared to 2009. From August through the remainder of 2010, CN plans to spend a total of US$960 million, of which US$220 million will be utilized for U.S. projects.

The majority of our capital investment is targeted towards track infrastructure to continue to operate a safe railway and to improve the productivity and fluidity of the network. This includes the replacement of rail, ties, and other track materials and bridge improvements.

CN's equipment spending, targeted to reach approximately US$300 million in 2010, will allow CN to tap growth opportunities and improve the quality of the fleet to meet customer requirements. This includes about US$200 million for improvements to the locomotive fleet and acquisition of 69 new high-horsepower locomotives. Also, roughly US$140 million will be spent through acquisitions and leases on freight cars and intermodal equipment, including the acquisition of 464 new ore jenny cars servicing primarily Minnesota mines and U.S. steel producers.

As noted above, CN is also making significant expenditures for infrastructure investment and mitigation measures related to implementation of the EJ&E transaction. The acquisition is expected to drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area.

Rail Congestion Points

CN is fortunate to not have major rail congestion points in our network. CN has continued investing in the quality and capacity of our plant over the years. As a result, we do not have any critical capacity-related infrastructure needs at this time.

We continue to invest in targeted projects in the U.S. to make the most effective use of our capacity and to increase velocity. Particularly important in this regard are our infrastructure expenditures related to implementation of the EJ&E acquisition.

Developments in Passenger Rail Service Access

CN continues to work well with Amtrak and Metra in connection with the service they offer on portions of our network. CN's operating contract with Amtrak expired on January 31, 2010, but has been extended to January 31, 2011. We are currently working on a revised operating contract.

CN has also worked with various State authorities in connection with their applications for federal funding for intercity rail passenger operations. Of particular note are potential high-speed rail operations on CN's Joliet Sub and Freeport Sub in Illinois as well as on CN's Holly Sub in Michigan. These initiatives still are in their early stages, with no capacity studies begun to date.

.../4

Amtrak On-Time Performance (OTP) on CN Lines

CN recognizes the importance of ensuring the best possible on-time performance for Amtrak service that operates over CN's track. Amtrak operates 32 train schedules over CN lines in Illinois and Michigan as well as long-distance service to New Orleans. We have seen consistent improvement in OTP for these services throughout the year.

We also are well aware that new OTP metrics issued by the Federal Railroad Administration (FRA) are now in effect. It is important to note that we measure OTP in accordance with the terms of our contract with Amtrak – which is based on run time minutes – while the FRA metrics are different, measuring end point OTP and station-to-station OTP using Amtrak published schedules which, in some cases, do not match CN's contract OTP. CN capacity planning and service design is reviewing all 32 train schedules for Amtrak trains and these will be discussed during CN's contract negotiations with Amtrak. It will be important to ensure that all schedules are reasonable and that they allocate the recovery time appropriately.

We also are dealing with continuing issues related what appears to be the failure of Amtrak equipment to properly shunt crossings and CTC. After completing 95 percent of the upgrades to all the crossing activation equipment at CN's cost, we have again experienced shunting failures in August 2010. These failures initially resulted in a speed restriction to protect public safety, but CN has since required all Amtrak trains operating on CN to operate with a minimum of 30 axles. This requirement allows Amtrak trains to operate at their normal speeds because the 30 axles have been shown to eliminate the shunt failures. In recent days, we have reviewed data which show that we will be able to reduce the minimum to 24 axles on CN's Joliet, Elsdon, Holly, Shoreline, and South Bend Subs, where Amtrak has short segments on CN and shunting has not been a problem when at least 24 axles are present. The Amtrak and CN signal engineers are working with suppliers on this issue.

Impacts of Extreme Weather Conditions

At various points throughout the past year CN has experienced extreme weather conditions in our U.S. service territory, and at times has needed to undertake repairs in the wake of major storms. In each case, we were successful in making needed repairs and resuming service quickly with no long-term adverse consequences to the efficiency of our network.

Export Container Availability

CN works closely with ocean container carrier companies on the movement of loaded export containers, whether it is from existing container loading facilities or potential new facilities. We understand that there are at least two different needs being addressed in the movement of containers at interior locations: U.S. exporters need empty boxes to move their goods to overseas markets, and container companies need sufficient return loads to help offset the cost of getting containers back to origin overseas for new "headhaul" moves. As the lines own the box, we move the box based on their disposition orders. We therefore often play the role of matchmaker, trying to get empty boxes to where they are needed at the lowest possible cost, with the ideal circumstance being an export load secured at the import destination. When this is not possible, we move the box empty, per liner waybill, at the most reasonable cost we can bear.

At CN, we face the same challenge every other land-based carrier does in the United States: imports flow naturally to population centers, but U.S. exports tend to originate in resource-rich, light-density population areas, triggering the need to move boxes empty.

Positive Train Control (PTC) Implementation

As required by the Rail Safety Improvement Act of 2008, CN is proceeding with implementation of PTC on the portions of the main line tracks of our U.S. network that carry passengers or toxic by inhalation (TIH) materials. For CN, this will require installation of PTC on 62 percent of CN's U.S. track miles (4,253 out of 6,790 track miles) at a total estimated cost of US$220 million. Specifically:

- PTC will be installed on all or portions of 41 CN subdivisions.
- PTC will be installed on 1,000 HHP locomotives as well as 180 U.S. assigned road and switcher power.
- PTC implementation will require equipment installation at 2,200 field locations to monitor signals, switches, and interlockings.
- CN's PTC implementation will be based on the Wabtec V-ETMS (vital overlay) system, which is the same as the system used by UP, NS, and CSX, and similar to the BNSF system.
- CN's 2010 investment level will be US$11 million, which ramps up to an average of $40 million per year from 2011 until 2015.

CN submitted its PTC implementation plan to FRA in April 2010 and received conditional FRA approval in July. FRA requested clarification on some items, and CN provided these clarifications to FRA in August.

Customer Service

Upon becoming CEO of CN at the beginning of this year, one of my primary goals was for CN to become a more customer-centric company. All year, we have been improving our dialogue with customers, listening to them carefully to better understand their business needs, and making appropriate adjustments. We have launched a number of new initiatives throughout our network and are particularly focused on first-mile/last-mile service.

The key to our service commitment is adherence to our precision railroading model in accordance with the five guiding principles identified by my predecessor, Hunter Harrison, namely: service, cost control, asset utilization, safety, and people. CN's employees have a passion for railroading and we all consistently seek ways to innovate in order to improve our service and create value for our customers.

As part of our effort to listen to our customers, we have been meeting with customers throughout our system to better understand their needs and concerns, to facilitate communications with CN, and to ensure that our e-Business and other tools meet customer expectations. CN also is launching this month a survey of our major customers.

Thank you for this opportunity to comment on CN's operations and upcoming plans. Please do not hesitate to contact me if you need any additional information.

Sincerely,

Claude Mongeau
President and
Chief Executive Officer

cc: Vice Chairman Mulvey
Commissioner Nottingham