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

June 29, 2012

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

Re: End-of-Year 2012 Railroad Service Outlook

Dear Mr. Chairman:

Thank you for your June 8, 2012 letter requesting information about CN's ability to meet expected demands for rail service in the United States for the remainder of 2012.

Expectations for Seasonal Peaks in Carload and Intermodal Traffic

CN is well prepared for a regular fall peak. We have undertaken a number of initiatives to ensure that we are in a position to efficiently handle our customers' freight transportation needs for the balance of 2012.

We continue to refine and enhance what we call our precision planning process (P3X), which brings together Marketing, Finance, Operations, and Human Resources to review detailed traffic projections and associated resource requirements. Through P3X, which provides a disciplined planning process to our growth, we are better able to anticipate crew, locomotive, car fleet and network requirements, driving detailed plans for hiring and asset investments. The program supports targeted investment in infrastructure and equipment to meet rising demand in a number of areas, including oil and gas (crude, frac sand), bulk commodities, and intermodal.

CN also continues to focus intensely on end-to-end supply chains. This approach is strengthening the integration of our planning with that of our customers and our supply chain partners, in particular ports and terminal operators. This approach, supported by the establishment of clear measures for all supply chain components, is improving the efficiency and reliability of the supply chains we serve.

.../2

Resources to Meet Volume Increases

We plan for CN to have sufficient resources to accommodate volume growth. We have sufficient cars and locomotives to handle expected traffic increases.

Of note, we are experiencing solid growth in the Gulf region, with customers in Canada and the U.S. shipping higher volumes into Tennessee, Louisiana, Mississippi, and Alabama for export (such as in the case of coal and grain) and for local consumption (related to the oil and gas sector). We have undertaken a review of our infrastructure and resources to ensure that we can grow along with these customers.

We also have sufficient train crew availability to meet anticipated traffic levels. We have hired 260 employees in the United States to date in 2012, 81 of whom are T&E (train and engine) employees (non-management). CN's Human Resources Department reviews the workforce plan monthly with Operations and adjusts hiring plans based on a detailed assessment of forecast attrition and business demand.

Plans to Support Demands for Prompt Movement of Finished Autos and Light Trucks

CN participates in the movement of finished vehicles and parts, providing access to specific vehicle assembly plants in Michigan and Mississippi, as well as in Canada. CN also serves vehicle-distribution facilities in Canada and the United States, as well as parts-production facilities in Michigan and Ontario.

CN is well positioned to handle movements of finished automobiles and light trucks. We continue to work with our automotive customers to develop new supply-chain opportunities that will use CN's rail network and assets for the domestic and global distribution of vehicles and automotive parts.

CN is enjoying high levels of traffic with all of our automotive customers. In the first quarter of 2012, CN added the equivalent of 614 bi-level railcars to our fleet. This represented a 22 percent increase in this equipment type. CN has also undertaken an initiative to increase the availability of multi-level railcars by reducing the out-of-service days. This initiative includes high numbers of certified multi-levels, repairing multi-level cars in the field, and where these railcars require repair shop time, reducing the dwell at the shop. Over the past five years, CN has either recertified or painted 23 percent of the total CN-owned multi-level fleet. Another 150 cars are scheduled to be recertified in 2012.

CN is also spearheading a number of supply chain initiatives to improve vehicle distribution. These include increasing the capacity and productivity of CN destination auto compounds to ensure that vehicles can be off-loaded expeditiously, reducing multi-level dwell time at destination. We are also pilot testing containerized vehicle shipping with some of our customers to provide an alternative to the traditional multi-level conveyance in select corridors.

In addition, CN is engaged with the industry on collective efforts to improve multi-level distribution. A number of initiatives are underway to improve the interchange of multi-levels between railroads through the industry TIPT Committee. In April, CN submitted a proposal to TTX and the MPEC/Reload Committees to develop an improved process to meet the shipping needs of our automotive customers in times of stress on the multi-level fleet. In response to CN's request, and the collective efforts of TTX and the other railroads, a new multi-level pool management process will be implemented on August 1, and represents the most significant change in this process in many years.

Plans to Support Demands for Movement of Crude Oil and Oil and Gas Drilling Activity

CN is well equipped to play a key role in the transportation, logistics, and transloading of steel, pipes, equipment, machinery, cement and other materials needed for infrastructure construction in the northern Alberta oil sands. CN also provides an alternative for bitumen shippers who face the time lags and significant financial burden of new pipeline construction.

With respect to the Bakken Formation in southern Saskatchewan, Montana, and North Dakota, CN is providing a direct truck-to-rail transportation option for Bakken crude oil at Willmar, Saskatchewan and we are considering other transload sites to support Bakken oil producers. CN's network reach gives crude producers and marketers access to the Gulf Coast, the U.S. Midwest, and Canada. Our network also provides these producers access to the Alberta oil sands.

I would also note that CN is upgrading the Whitehall Sub and portions of the Barron Sub in Wisconsin at a cost of approximately US$63 million. This investment, which will reopen rail lines and allow for heavier 286,000-pound carloads, will enable CN to provide enhanced service to shippers of frac sand while supporting local businesses and communities.

Investments Made in Freight Rail Service and Capacity Improvements

CN plans to invest approximately US$1.8 billion in 2012 on capital programs system-wide, an increase of about US$50 million compared to 2011. For the balance of 2012, CN expects to spend a total of US$1.3 billion, of which US$365 million will be utilized for projects in the United States.

The majority of our capital investment program is focused on track infrastructure to maintain safe railway operations and to improve the productivity and fluidity of our rail network. This includes replacement of rail, ties, and other track materials, as well as bridge improvements.

CN's equipment spending, which is intended to improve the quality of the fleet to meet customer requirements, includes the acquisition of 15 new fuel-efficient locomotives, 43 second-hand EMD SD60 locomotives as well as new freight cars, and is targeted to reach approximately US$200 million in 2012. CN is continuing the rejuvenation of our iron ore fleet and will receive 232 new ore cars in 2012 for transporting pelletized iron ore produced in the Upper Midwest. This will bring the total number of new ore cars received since 2009 to 1,170 cars.

CN will continue the integration of our Elgin, Joliet and Eastern Railway Company (EJ&E) property. The acquisition is driving new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area. Over the next few years, CN will work on a number of rail connections and mitigation measures, with spending of US$35 million targeted in 2012. In addition, CN will continue the upgrade of Kirk Yard in Indiana, with approximately US$40 million to be invested in 2012.

Earlier this year, CN opened our newest intermodal terminal at Chippewa Falls, Wisconsin. The terminal offers to Wisconsin and Minnesota customers new supply chain options to receive containerized goods from all over the world and have the opportunity to source that same container capacity for export consumer goods and agricultural products to customers globally.

As noted above, CN is restoring and upgrading rail lines in Wisconsin to handle frac sand shipments; CN plans to spend approximately US$40 million for this project in 2012.

With respect to intermodal, CN will acquire roughly 1,200 new containers this year to better serve manufacturers and distributors of grocery and consumer goods in the U.S. and Canadian domestic markets that we serve.

Lastly, implementation costs associated with the U.S. federal government's legislative requirement to implement Positive Train Control by 2014 will amount to about US$19 million in 2012 and an approximate total of US$220 million for the entire project at CN.

Developments in Passenger Rail Service Access and On-Time Performance

Access. CN continues to work with Amtrak and Metra in connection with the service they offer on portions of our network. CN also continues to work on capacity studies related to potential new rail passenger operations.

On-Time Performance (OTP). Amtrak operates a total of 32 trains on CN lines: 24 regional trains on CN lines in Illinois and Michigan (six of which operate over two separate segments in Michigan on CN along their route), as well as one long-distance train pair between Chicago and New Orleans. We have seen an improvement in contractual OTP in 2012, with average OTP as of the end of May for the Amtrak service operating on Illinois Central lines at 93.4 percent (with several segments operating at 100 percent OTP during May) and for Amtrak service operating on Grand Trunk lines at 90.2 percent.

As the Board is aware, on January 19, 2012, Amtrak filed a petition asking the STB to investigate the performance of Amtrak trains on CN lines, asserting that the OTP and delays of Amtrak trains on these lines during fiscal year 2011 did not meet the standards developed under Section 207 of the Passenger Rail Investment and Improvement Act of 2008. Mediation is ongoing under the auspices of a STB mediator, and CN is hopeful that all issues will be addressed in a satisfactory manner through this process.

With respect to Metra, CN and Metra have worked together closely this year to address OTP issues for Metra service on CN lines, particularly with respect to Metra's Heritage Corridor and North Central service (on CN's Joliet and Waukesha Subs, respectively). Performance is strong and CN and Metra are maintaining open lines of communications to address issues as they arise.

CN's Most Recent Customer Service Survey

CN has continued to improve our dialogue with our customers. Our Customer First program, comprised of eight major initiatives addressing customer pain points across a wide range of service parameters, including communication, order taking (equipment supply), and service delivery (first mile/last mile focus), is showing continued success in our service and customer focus. Customer-centric behavior is fast becoming embedded at CN, and our latest customer survey supports this trend.

Our most recent survey, which we launched in September 2011 and surveyed all customer segments, found that our overall customer service rating continues to improve across all regions, the key customer touch points, and for most of our core products, with domestic intermodal experiencing the most significant improvement over the last six months. Our customers have also noticed a marked improvement in customer service over the past year compared to the previous year, indicating that our efforts are paying off. Furthermore, the survey also identified opportunities for improvement, on which we are working closely with our customers as we continue our efforts to enhance the overall supply chain.

Thank you for this opportunity to comment on CN's outlook and 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 Begeman