



CN's Remarkable Transformation Journey: It's All About Vision, Innovation and Execution

Notes for remarks by

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The Journey

Thank you for your kind introduction, and thank you, ladies and gentlemen, for this opportunity to meet with so many of our friends and colleagues at the Board of Trade of Metropolitan Montreal.

CN has been a proud member of the Montreal business community for nearly a century and we have gone through remarkable changes over the decades. Many of you may not know that CN was the precursor of the CBC and of what is now Air Canada; and CN was also among the first to use diesel locomotives in the early fifties, ahead of other railways, which was revolutionary at the time.

But the most dramatic changes of all took place in the last 15 years. Changes after CN was privatized in November 1995, following the most successful Canadian IPO ever. Changes that were part of what we like to call a remarkable transformation journey. Part of what was, objectively, one of the most profound transformations in Canadian business history.

This is not just a story of our financial success, however, It's the story of how we got to where CN is today.

If you examine our journey since 1995, you will find three huge changes in the way the Company came to be defined. The first transformed CN from what was a stodgy Crown corporation, to a leader in the railway industry.

Throughout most of its history, the CNR, as it used to be known, lost money and was subsidized by the Canadian taxpayers. Today, CN is the most profitable railway in North America. CN is recognized as a world-class leader in the way it operates the business and serves its customers. CN is emulated and is the subject of benchmarking by other railways around the globe.

The second transformational change brought CN from a business primarily focused on Canada, to what is now a full-fledged North American railway. Today CN spans 8 Canadian provinces and 16 U.S. states. CN is the only railway touching the Pacific, the Atlantic and the Gulf coasts, offering

major access points to the world and reaching close to 75% of the consumers of North America.

Extending CN's reach and coverage was more than just a matter of geography. It opened up a whole new set of markets, from the petrochemical complex of Louisiana, to the corn and soybean fields of the U.S. Midwest. It allowed us to offer seamless, single-line reliable service for the forest products of British Columbia, the fertilizers of Saskatchewan, and the metals and minerals of Central Canada.

The third transformation over the last 15 years was in CN's ability to create value for its shareholders. Just three numbers, if I may. In late November 1995, CN's market capitalization was \$2.2 billion; in November 2010, it averaged \$30 billion. The total return to shareholders, including dividends, was a compounded rate of 21% a year.

In his book "Good to Great", Jim Collins looks at what he thought made companies not just good, but great. He defined the result of greatness as having a history of value creation over a full 15-

year period that was three times better than the overall market: not 5, not 10, but 15 years. He even thought that wasn't enough and added that great companies also have to beat their peers to the same extent over that period. Well, you might be surprised if I tell you that this Montreal-based company met both criteria and more: since 1995, we beat the whole market by a factor of 18, and our rail peers by over 5 times.

But the same way a tennis player doesn't win the championship by watching the scoreboard, CN didn't transform itself by being fixated on the ticker. Let me spend a few minutes giving you my view of how CN got to where it is today, and how we made the tough changes that were needed to make it happen.

Vision, Innovation and Execution

As with all success stories, CN's transformational journey started with a vision. It was back in 1992, when Paul Tellier came to Montreal to become CN's president, that the vision took shape. Paul saw that a money-losing Crown Corporation had

limited incentive to break through and succeed, so he set a bold challenge for CN: to become the best railway in North America.

Can you imagine? He wanted CN to go from the caboose position in the industry to the one of undisputed leader at the head-end. Such a vision set in motion a momentous chain of events, from preparing the Company for privatization, which was not a small task, to the privatization itself (some said “Pigs don’t fly”), to the installation of a strong Board of Directors and the selection of an outstanding management team – including yours truly... with less grey hair and a few fewer pounds as well!

But the vision went further. The decision was made to extend CN’s reach in North America. That was pretty gutsy. Less than three years after the IPO, CN made a bold move to acquire the Illinois Central, which opened our network in one fell swoop all the way to the Gulf Coast. This was in 1998. In 2001, we made another strategic move and acquired the Wisconsin Central which allowed

us to offer a seamless route from Western Canada to Chicago.

The WC was followed by BC Rail and others, until recently when we bought another key piece, the Elgin, Joliet and Eastern Railway, that enables us to connect all our acquisitions and will make it possible for us to go through the key Chicago hub, faster and more efficiently than ever before.

In all, \$8 billion of acquisitions in less than 10 years! Over 13,000 kilometres of track, integrated flawlessly into the CN family. Helping build a rail footprint that is now ideally suited to face a global economy and help our customers grow their own business.

The vision was key. But there was a lot more in CN's journey. Surprisingly for many, but key to our transformation, was the innovative spirit that emerged at CN during the last 15 years. This is a spirit that continues to drive CN today.

Innovation in a railway? How can one innovate with a technology that's over 150 years old? How

can one innovate in such a traditional line of business? The answer came initially from Hunter Harrison's genius as he joined us from the Illinois Central in 1998. Hunter taught CN about Precision Railroading, a way to leverage all the economic strength of railroading.

Through precision train scheduling and pre-set trip plans for each railway car or container, Precision Railroading is about operational and service excellence. It's about getting better utilization of assets and improving customer service at the same time. It's about balance and fluidity on a network moving well over 200 trains and managing 100,000 cars each day.

Precision Railroading was a major innovation, and CN has been innovating ever since. We have extended the principles of Precision Railroading to our yards, shops and in our track work. We are using our information systems to produce daily operational dashboards that are consistent, trusted and transparent to all. And a lot more.

The third key element of CN's transformation, certainly not the least, is execution. As all of you in this room know, that is where the rubber hits the road, if you pardon the pun. Well, let me tell you, execution is in the DNA of CN.

Executing with 22,000 employees, spread over the network, in all kinds of weather and territory. Sharing a common understanding of our goals and displaying a pride and a passion for railroading that are simply unequaled in the industry.

In the end, vision, innovation and execution are ultimately what differentiates CN from the pack. Indeed, we all have the same locomotives, railcars and railway gauge. We often share the business of the same customers operating in the same markets. But, at CN, we know how to execute on a bold vision of change and innovation.

CN is a Work-in-Progress

And CN continues to innovate today. We can't stand still, for all our friends in the business are rushing to catch up with us, emulating what we do,

and keeping the pressure on us to stay ahead.
Simply said, we're still a work-in-progress.

Building on a solid foundation from our remarkable transformation journey, we are ready to go to the next level of industry leadership. Top of the list is becoming a true supply chain enabler to help our customers grow and succeed in their own markets.

You know about supply chains: each of them has several players who depend on one another to succeed, with every chain only as good as its weakest link. Because we, in the railway business, play an important role in many of these chains, we can drive improvement from one end to the other.

Let me give you an example that is very close to home, here in Montreal. Indeed, we've been working with Sylvie Vachon and her team to improve the efficiency of the intermodal supply chains using the Port of Montreal. In September, we jointly announced an innovative collaboration agreement.

Every morning, CN and terminal operators at the Port receive a scorecard that shows how well our teams are meeting our commitments to each other. Did the trains arrive on time? How many containers arrived? How many were moved? How many train slots were filled? How many boxes have been on the ground for more than 72 hours?

With such key performance indicators, we can see where we need to do something. That's the beauty of having transparent information. If we know two or three days ahead of time we could have an issue, we can start to do something about it now.

I could tell you about other supply chains which we are enabling: from coal mines in Alberta to ships in Prince Rupert, and from grain farmers in the Prairies to the waterfront in Vancouver. In these cases as well, it's about collaboration between partners, transparency about the facts, and the normal pursuit of commercial interests. A compelling way of moving forward. An engaging approach that avoids finger-pointing when things go wrong. An effective path to solution-finding to

make things go right so we can win our share of world markets.

Some people don't understand the extent of the change CN has been through to date and the new direction we're taking now. Some would even like to go back in time, to the days of heavy-handed regulations, where CN and the rail industry were not financially viable.

Those who follow the Rail Freight Service Review Panel will recognize that type of thinking. Faced with the choice between a commercial framework to drive better service and more efficient supply chains, and a regulatory-based regime that risks breaking the momentum of collaboration and innovation, I am hopeful that the Panel will reflect on the facts and make the right call.

The policy choice is clear. It's about vision, innovation and execution. It's about driving improvement and being rewarded for doing so. It's about the pursuit of innovation and productivity to foster prosperity across Canada.

In Conclusion

Ladies and gentlemen, CN is a company on the move. I'm standing on the shoulders of giants, but CN is not standing still. We're on a journey that's taking us to a new level of operational and service excellence. A journey that allows us to play our key role in Canada's future prosperity.

Our journey is about change. And such a vantage point leads me to go beyond CN and suggest that we need more of these success stories in Canada. Because the world is not standing still, we all need to embrace change, not shy away from it. We all need to raise our game because the game is constantly changing. We need to be bold and grow the pie before we can actually share it.

If CN can do it in what is widely regarded as a traditional industry, imagine what could be done in other sectors, with the same driving forces of vision, innovation and execution, properly supported by sound government policy.

CN is a proud Montreal-based company with the remarkable transformation story I was honoured to share with you today. A few years from now, maybe the Chamber will be kind enough to have me come back to this podium. Who knows how things will look like by then? Hopefully, Montreal and Canada will have even more dynamic companies than today, working hard and competing in a tough global marketplace, just as CN is doing.

With a bit of luck, I'll be able to report on continuous improvement, solid shareholder value creation, and another step in CN's remarkable transformation journey.

Thank you.