



# CN is a true backbone of the economy

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Thank you for these kind words, and thank you for inviting me to this luncheon of the Board of Trade of Metropolitan Montreal. It's a real pleasure to be here once again and address our numerous friends of the Montreal community, our hometown. I was here three years ago to talk to you about our transformation journey since we were privatized in 1995. I talked about how we had gone from being a stodgy Crown corporation, to becoming a dynamic and successful company. Our momentum has continued strong since then.

For one thing, CN has grown significantly. In fact, if I may go back to 2009, the year before I became CEO, our revenues have since increased by close to 45%. Our goal has been from the start to grow faster than basic economic conditions and to do so at low incremental cost. We've managed to achieve both, thanks to our now solidly established agenda of Operational and Service Excellence.

Today, I would like to provide an update on how our remarkable transformation journey is continuing to unfold. And I want to tell you about how CN is playing its role as a backbone of the economy.

### **CN is a true backbone of the economy**

I can think of many ways to frame our role in the economy. I could give you a long list of numbers regarding our extensive network of 20,000 miles, our growing workforce of 23,000 railroaders, our significant asset base of some \$25B, or our market capitalization of \$50B. There is a long list of size or scope indicators, but there is a more compelling way to convince you. And it's to help you understand how CN is key to our collective economic success.

The most direct way to do that is with one single number, and that number is 250. 250 billion dollars. That's the value of the goods CN moves safely and efficiently every year.

\$250 billion, split between the Canadian exports we touch, either to the U.S., to Asia, or to the rest of the world, representing over 30% of our traffic. The freight

we move within Canada or within the U.S., and that's about 40%. And, finally, the imported goods we move into North America, from all over the world, for the remaining 30% or so.

\$250 billion of natural resources, industrial products, and consumer goods, that we move as fast and as reliably as we can. \$250 billion of goods that allow us to say that CN is a backbone of the economy. A true backbone, because of how we are extensively involved in just about every sector of the economy, because we touch so many goods that matter across North America.

A backbone, because of the reach and the service we provide to our customers. A backbone, because of the way we innovate to help our customers win in their own market. Also, because we have an unwavering commitment to safety and always aim to deliver responsibly.

I often say to my people, if we decided not to show up one morning, this country would come to a grinding halt. Some of you might think I'm exaggerating, but I would not try to challenge us!

### **A backbone for natural resources**

Let me try to prove my point, starting in the West, where we move a lot of bulk traffic, from grain to coal, sulphur and potash, to name only a few. In most of these cases, rail is a major component of the total delivered cost to market.

Take grain for example. CN delivers grain from the Prairies to the West Coast, for furtherance to more than a hundred countries around the globe. Because our grain customers compete with major producers like those in Australia, who are clearly closer to Asian markets, Canadian farmers need efficient rail transportation to stay competitive. They need to deliver the right product, to the right market, at the right time.

Canadian railways are a key part of the solution, offering rail freight rates that are amongst the lowest in the world. And since rail transportation constitutes around

25% of the delivered cost to the West Coast, that makes a major difference. The efficiency of railways is a pillar of Canadian agricultural competitiveness.

The railways are also a core component in this supply chain that calls for continuous and dynamic engagement with grain elevators in the Prairies. At CN, that engagement takes shape through an innovative approach to the Grain supply chain. Under our Scheduled Grain Plan, we monitor the cars we promised to spot daily in the countryside, and we work with grain elevators to keep the supply chain from the countryside to the waterfront as fluid and synchronized as possible at all times.

As we speak, that grain pipeline focus is firing on all cylinders to move a record Canadian crop. CN is a true backbone to help Canadian farmers win in world markets.

### **A backbone for consumer goods**

Closer to home in the East, the focus is more on the consumer goods that are found on the shelves at your neighborhood shopping centre. When you stop to think about it, what brings those products to market, including right here in Montreal, are complex supply chains. Supply chains that often originate in Asia, land on the West Coast, travel thousands of miles to terminals and distribution centers, to finally wind up in Hudson's Bay stores, Dollorama, Métro, Loblaws, or Walmart.

At CN, we are at the core of those supply chains, we move close to two million intermodal containers a year. They are full of clothes, furniture, food, electronics, toys, wine, you name it. In this case, you will surmise, rail is a smaller portion of the delivered cost, but railways make a difference in other ways. Foremost, in a supply chain involving higher value, time-sensitive consumer goods, we need to be focused on the speed and reliability of service from end-to-end, not just when the containers are moving on our trains.

This is another area where CN has introduced fundamental innovation in the last few years, inviting all the key players in the supply chain to participate in framework collaboration agreements that open end-to-end visibility to all. These agreements focus on joint performance metrics that break down silos and smooth out the flow of goods.

I personally get daily information about how we are doing at all the ports we serve, from Vancouver to Halifax, en passant bien sûr par le Port de Montréal: I get these messages, like Sylvie Vachon does, on my blackberry and that's how I know first hand whether the chain is working smoothly or not. With the Port and the waterfront terminals, we have created an entirely new ecosystem of supply chain collaboration, right here in Montreal, and across the country.

And it's working. CN is a true backbone for consumer goods moving intermodal.

### **Innovating to stay ahead**

The pursuit of innovation requires a clear vision, solid teamwork and a common definition of success. It also requires people who are willing to think outside the box and are committed to do what it takes to deliver. And one key part of that winning team at CN is our IT group. If you came to our headquarters, a few blocks from here, you'd find about 2,000 people at work in the building. Amongst them, there are 850 CN employees specialized in Information Technology. I would be tempted to say that CN has the best IT group in the country. While railroading still depends on an old steel-on-steel technology, it's also more than ever about modern information technologies supporting Precision Railroading.

Technologies that provide real-time information on our operations. Systems that allow us to plan efficiently and to execute day in, day out, on the trains, on the tracks and in the shops we work in. Systems that give us the ability to provide the service that our customers need, to keep track of where their shipments are located at all times, and to communicate with them proactively when things don't go as expected. My friends in IT often remind me how important they are to our

collective success. In fact one of them told me recently, Mr. Mongeau, if IT folks don't show up one morning, it doesn't really matter whether you do or not!

If CN is a backbone of the economy, it's also because we constantly innovate to stay ahead.

### **A backbone for industrial products**

At CN, we touch a range of key industrial products, for instance, we handle 50% of the aluminium and 30% of the steel produced in Québec. Obviously in the case of aluminium, transportation is not as important as electricity in the chain to market, but again, we matter in other ways. In particular we allow our customers like Rio Tinto Alcan and Alcoa to reach relevant markets throughout the U.S., but also as far as Mexico. We strive to stay on top of the geographic markets they serve and we know the competition they face is tough.

We know we have a key role to play in their search for global competitiveness. The world keeps changing and we can't rely on old sources of advantage. I'm told, for example, that with the shale gas revolution, electricity rates are coming down to close to 5¢ a kilowatt-hour in some corners of Texas.

Now that's a new challenge for the many companies used to Hydro Québec's low rates.

There is another way that CN is innovating in the marketplace. We deliver speed and reliability on the line, something for which we're in fact the leader in the industry, but we also focus intensely on the first and last mile of our interaction with customers. We now monitor our car order fulfillment much more carefully, and we reach for every load in fluctuating sectors like the steel products of Arcelor Mittal. Obviously, the better our service, the more our customers keep us in the loop; and the more mutual trust we can build, the more win-win success we can garner.

It's a new paradigm, and it's working. CN is a true backbone for industrial products.

We are a true backbone to many more sectors, from forest products like lumber and wood pellets to automotive shipments, from frac sand to construction aggregates, and our bold agenda to help our customers win in their end markets remains the same across the board.

### **CN is delivering responsibly**

And, of course, we move many dangerous goods across our network. As you can imagine, dangerous goods have been the subject of extensive scrutiny since the tragic accident at Lac-Mégantic. Since that accident in July, we at CN have been reassessing everything we do to make sure we operate as safely as possible.

Dangerous goods are an important part of our business, about 10% of what we move. 500,000 carloads a year, touching \$25B worth of goods. All these goods are also a key part of our day-to-day lives. The propane we move is used to heat, to dry crops, and to fire up your barbecue on weekends. The propylene we move finds its way in all forms of products like water bottles and eyeglasses. The styrene we move is found in rubber for shoes and tires, and in many appliances like your iPhone. Caustic soda goes into paints and detergents. Chlorine serves to purify the water in our cities. And we also move a small, but growing amount of crude oil too. We do so right here in Quebec, bringing crude from inland to help the overall efficiency of refineries like Suncor in Montreal and Valero in Lévis. CN helps move Canada's energy to market safely and efficiently.

### **An Unwavering Commitment to Safety**

As a backbone of the economy, we take our role very seriously when we're entrusted to move such dangerous goods. CN has an unwavering commitment to safety and we always aim to deliver responsibly. Our safety record is solid and it's been improving continuously for several years now. Our commitment is built on a safety culture that runs deep throughout our organization, from our Montreal

head office to the field forces across our network. Our focus is anchored on disciplined execution and the tight process control of a comprehensive Safety Management System. And our improvement in the number of accidents of some 50% over the last 10 years is fueled by significant investments in infrastructure maintenance and modern detection technologies.

However, even with that safety record and all those safeguards, the risk of accidents can never be totally eliminated. But it's important to recognize that we do bring 99.997% of our DG movements to destination without any incident. And when an accident does occur, we have a strong response capability that we can deploy quickly, as we demonstrated about a month ago in Gainford, Alberta. We are transparent and we inform the communities we go through about dangerous goods traffic and work hard to help them better prepare for potential incidents. In fact, we have just launched a major community engagement program where we're reaching out to the 1,098 communities in Canada. We're offering to meet chief first responders and civic officials in an effort to make sure we all understand our respective roles in protecting public safety.

You can rest assured that we are taking account of Lac-Mégantic and carefully reassessing risks in context. We've reviewed all our train securement practices in line with the directive issued by Transport Canada earlier this summer. We have extended to our Canadian operations what is called the "OT-55 key train policy" for moving dangerous goods in the U.S., and are now applying it to all flammable products.

We're doing targeted corridor risk assessments, looking at things like grades and urban proximity. We're strengthening our processes, and as our Chief Operating Officer Jim Vena announced a few days ago, we're stepping up our detection capability by adding track testing equipment to detect more issues before they can cause an accident. We're doing all this even though we have the densest network of wayside detectors in the industry and have already increased the frequency of our inspection by a full 70% during the last five years.

The reality is very clear: we do far more than what the regulatory standard calls for, but we remain committed to look for what more we can do to continue to further improve safety. One such area we have focused on with the whole North American rail industry is the review of tank car design. There is no easy solution here because the tank cars are mostly owned by our customers, and it will take time and money to make sustainable changes. But, in my mind, tank car design is one of the most important systemic issues arising from the Lac-Mégantic accident. The question of tank car robustness is central, and that question is being addressed by the Association of American Railroads, to which CN belongs, in a recent recommendation that calls for a gradual phase-out of the old DOT-111 cars and a reinforced standard for new tank cars built in the future.

### **What CN stands for**

Our reach, our efficiency, our pursuit of innovation and our commitment to deliver responsibly define what we stand for as a company and how we play our role as a true backbone of the economy. We believe firmly that efficient operations and quality customer service go hand in hand and that's how our agenda of Operational and Service Excellence takes form out in the field, 365 days a year. But it starts here, at home base, in Montreal. This is where the CN Leadership Team resides, where the direction is set and where most of the strategic decisions are made. Montreal is home to the most innovative and the most profitable railway in North America and we should all be very proud of that fact.

At CN, we are deeply committed to playing our role as a true backbone of the economy. We are a proud team of 23,000 railroaders, fully engaged to remain the leader in the industry, creating value for our customers and shareholders. We are fully committed to deliver safely and responsibly. And you can count on us to show up for work in the morning, every day!

Thank you.