

CN's Proposed Acquisition of the EJ&E

November 2007

TRANSACTION BACKGROUND

- On September 26, 2007, CN and United States Steel Corporation announced an agreement under which CN will acquire the major portion of the Elgin, Joliet and Eastern Railway Company (EJ&E) for US\$300 million.
 - The transaction will improve rail operations on the CN system and the rest of the Chicago rail network by taking the concentration of CN trains out of the urban core and dispersing those trains along the EJ&E's lines on the outskirts of the Chicago metropolitan area.
 - •Streamlined rail operations and reduced congestion resulting from this acquisition will benefit CN and EJ&E customers, the greater Chicagoland community, and the overall rail network in the region.
 - ■EJ&E employees, customers, and the communities in which the EJ&E operates will benefit from the EJ&E being part of a Class I railroad.
- U. S. Steel's Transtar subsidiary will retain the railroad assets, equipment, and employees that support the Gary Works site in Northwest Indiana and the steelmaking operations of U. S. Steel, which will become the Gary Railway.
- The acquisition is subject to regulatory review by the U.S. Surface Transportation Board (STB) if the application is approved by the STB as a minor transaction, it should allow closing by mid-2008.

The acquisition will significantly improve rail operations in the Chicago region



CN FRANCHISE FACTS



- CN operates the largest rail network in Canada and the only transcontinental network in North America – the company operates approximately 20,300 route miles in eight Canadian provinces and 16 U.S. states.
- CN's business strategy is guided by five core principles: providing premium service, controlling costs, focusing on asset utilization, committing to safety, and developing people. CN's efforts to increase speed, efficiency, and reliability through the execution of its precision railroading concept are ongoing and never-ending.
- CN's revenue is derived from movements of a balanced mix of goods between diverse origins and destinations. Roughly 77% of CN's revenue comes from U.S. domestic operations, Canada/U.S. transborder operations, and offshore traffic, with 23% generated from Canadian domestic operations.
- CN has the best operating ratio among Class I railroads.
- CN employs approximately 22,000 people in the U.S. and Canada.



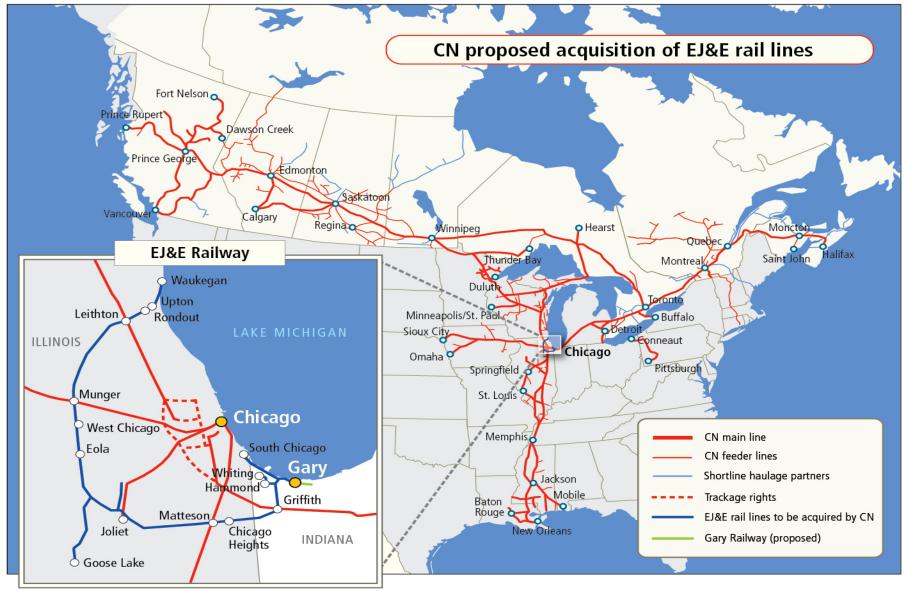
EJ&E FRANCHISE FACTS

- EJ&E is a Class II railroad owned by U.S. Steel's Transtar subsidiary.
- EJ&E operates over 198 main line miles of track encircling the City of Chicago from Waukegan, IL in the north to Joliet, IL in the west to Gary, IN in the southeast, to South Chicago.
- EJ&E serves steel mills, petrochemical customers, and a diverse group of distribution centers, handling a full range of commodities, from bulk raw materials to finished products. Coal is also moved to utility plants in Illinois and Indiana.
- EJ&E connects with all of the major railroads entering Chicago.
- EJ&E employs about 700 people in Illinois and Indiana.





CN NETWORK AND EJ&E LINES





RAILROADING IN CHICAGO

- Chicago is a key rail hub, but congestion and infrastructure currently are major issues.
- CN rail lines converge in Chicago, coming into the city from five different directions.
 - Inside Chicago, CN's trains connect either directly, through sub-optimal infrastructure such as the St. Charles Airline in the downtown area, or indirectly via the Chicago terminal network – the BRC or the IHB.
- The EJ&E route will provide a way around rather than through Chicago.
 - This line will bridge what has been the missing link in CN's network in the Chicago area – it will tie together CN's Southern region and will improve the linkage between CN's Southern region and its Eastern and Western regions.
- As CN trains reroute from the existing Chicago terminal network onto the EJ&E, line capacity in greater Chicago will be freed up to ease congestion, thereby benefiting other rail users.

This acquisition is good news for railroading in Chicago and beyond



PUBLIC INTEREST IMPACTS OF THE ACQUISITION

- The acquisition is a good deal for all stakeholders.
 - Chicago rail operations
 - The acquisition will contribute to the public interest in addressing significant transportation challenges. It will improve rail operations in and beyond the Chicago area by enhancing fluidity and permitting infrastructure investments to accommodate increased capacity demands on a key corridor around Chicago.
 - Passenger/commuter
 - The acquisition should have a positive impact on passenger and commuter services operated on CN in the region as freight traffic entering Chicago is shifted from CN's lines to the EJ&E.
 - CREATE project
 - The acquisition is consistent with the objectives of CREATE and will reduce the amount of taxpayer funding necessary for the project.
 - Competition impacts
 - The acquisition will not harm competition.
 - Employees
 - The present EJ&E employees will be offered jobs on CN or the Gary Railway, or protected if any reductions occur.
 - Communities
 - CN will work closely with communities to jointly address local issues.
 - Safety
 - As on the rest of the CN system, rail safety will be our top priority.



IMPROVED RAIL OPERATIONS

- The acquisition will improve rail operations in and beyond the Chicago area by reducing congestion, enhancing fluidity, and driving significant operational improvements.
 - CN owns rail corridors that intersect the EJ&E's lines along Chicago's
 periphery at five places with the acquisition, CN will be able to use EJ&E's
 lines to route its trains between CN corridors, thereby bypassing Chicago's
 congested urban core and improving fluidity not only on the CN system but
 also on the rest of the Chicago rail network.
 - Rerouting CN trains will increase rail capacity for CN and for other carriers operating in Chicago.
- CN plans to invest approximately \$100 million in the first three years for integration, improved connections, and infrastructure enhancements to add capacity on the EJ&E to accommodate growth in demand for rail service and allow network synergies to be realized over time.
- The acquisition will not harm other services such as trackage/haulage trains operated on CN and EJ&E lines and is anticipated to improve commuter/passenger train services.



COMPETITIVE IMPACTS

- The acquisition will not harm rail competition.
- Other rail carriers will directly benefit from the acquisition because more train and switching capacity will become available over time in Chicago as CN's trains reroute.
- Customers' competitive options will be maintained:
 - There are no shippers served only by CN and EJ&E (2-to-1 shippers) who will lose direct rail competition as a result of the acquisition.
 - There are no shippers served by CN, EJ&E, and a third carrier (3-to-2 shippers) for whom the acquisition will reduce the number of competitive service options.
 - The transaction presents no risk of reduced geographic competition.
- As in past transactions, CN will keep gateways open and honor existing trackage rights agreements.



CUSTOMER BENEFITS

- The acquisition will result in improved reliability and service that can be provided more efficiently to CN and EJ&E customers.
 - EJ&E's lines will be operated by an experienced, successful operator whose core competence is freight rail transportation.
 - CN customers will see improved reliability once CN trains are redirected from their current routes.
 - Customers that use other railroads that move trains inside Chicago may indirectly benefit as conflicting CN trains will now be on alternate routes – thereby creating capacity in the Chicago terminal network.
 - While CN's through trains will reroute away from Chicago, rail service to customers on the line will continue
- The acquisition also will make it possible for CN to enhance the scope and quality of its direct service to the North American steel industry.

This transaction is good news for EJ&E and CN customers



IMPLEMENTATION

- CN will step into EJ&E's shoes as the operator, which will allow for straightforward implementation of the acquisition.
 - The two networks are a natural fit.
 - The acquisition will result in no significant operational changes for EJ&E's existing traffic.
- As in previous transactions, CN will employ a methodical, step-by-step implementation approach to integrate the CN and EJ&E operations without disruptions.
 - CN plans to invest \$100 million in the first three years to help to ensure smooth implementation.
 - Key elements of the implementation include changes to some train traffic patterns, improved connections, installation of siding extensions and double track at some locations, upgrades and expansion at Kirk Yard.
 - CN's trains will reroute onto the EJ&E in successive phases.
 - CN will use its proven implementation approach demonstrated in prior acquisitions to deliver seamless integration of key operating and customer service systems.



COMMUNITY IMPACTS

- Residential and commercial areas in downtown Chicago will see reduced CN traffic and reduced vehicular/train interference as CN's trains are moved out of the center-city and dispersed along the EJ&E arc on the periphery of the Chicago metropolitan area.
- The reduction in the number of trains operating on CN lines in the dense urban core will be balanced by increases in average daily train counts on the EJ&E lines in less populated areas.
 - The degree of change will vary along the length of the EJ&E and will depend on where the rerouted trains enter and exit the EJ&E.
 - The rerouting is expected to take place in three phases, with the second and third phases taking place after track additions and connection capabilities are in place.
- The overall environmental impacts of this acquisition will be positive for the region, but train traffic will increase in some suburbs.
 - CN will work cooperatively with suburban communities where rerouting of CN trains onto the EJ&E takes place to jointly address their specific concerns.



SAFETY IMPACTS

- CN will be submitting a Safety Integration Plan (SIP) to the Federal Railroad Administration and the STB as part of the application process.
 - The SIP will address corporate culture, employee training, operating practices, motive power and equipment, track safety standards and bridge structures, hazardous materials, dispatching operations, highway-rail grade crossing systems, personnel staffing, capital investment, and information systems on the CN and EJ&E systems.
 - CN is dedicated to assuring that there will be no adverse safety impacts from the acquisition.
- Safety is a core value at CN, and CN will extend its safety programs and practices to the EJ&E operations.



EMPLOYEE IMPACTS

- The majority of the present EJ&E employees will be joining CN, and CN welcomes these experienced railroaders into the CN family.
 - EJ&E's represented employees will be divided between the operations CN is acquiring and those to be retained by Transtar.
 - Labor implementing agreements will provide a process for dividing represented employees between the operations CN is acquiring and the operations that Transtar's railroad subsidiary will retain.
 - There will be two principal labor impacts the elimination of redundant positions and the organization/integration of forces to realize the efficiencies of the transaction.
 - To the extent that any reductions occur, CN anticipates that most, if not all, of these impacts can be accommodated through normal attrition during the implementation period. Also, with CN's continued need for experienced, skilled railroaders at its vast neighboring Chicago operations, affected employees in most cases will have the opportunity to fill other positions as they open up elsewhere on CN.
 - CN has a strong track record in previous transactions of voluntarily reaching implementing agreements with labor organizations, with due regard to seniority issues.
- The parties anticipate that the STB will apply its standard New York Dock labor protective conditions, which will protect affected employees for up to six years in the event that employees are adversely affected by the division or the acquisition.
- EJ&E's salaried employees coming to CN will be offered employment by CN with a compensation and benefits package equivalent to that received by CN's U.S. managers.



IMPACTS ON PASSENGER OPERATIONS

- The acquisition should have a positive impact on passenger services operated on CN in the region as freight traffic entering Chicago is shifted to the EJ&E from CN lines now shared with passenger trains.
- The acquisition will not affect passenger rail service operating on CN rail lines today, although Amtrak trains operating on the St. Charles Air Line route would need to be re-routed once CN ceases operations on that route in approximately 2010. CN will work with Amtrak to help ensure that there are no disruptions to intercity passenger rail service.
- EJ&E's lines are not used for intercity or commuter passenger rail service, although EJ&E crosses several Metra corridors at grade CN will work with Metra and the host freight operators to coordinate operations and adjust operating windows so that the needs of all users can be met.
- Metra also is studying the feasibility of using a portion of the EJ&E corridor for its potential future STAR Line service. If the acquisition is approved, CN is committed to working with Metra to explore options to further Metra's goal of extended commuter train service while accommodating CN's need to move freight trains more efficiently through and around Chicago.



IMPACTS ON CREATE

- The acquisition will advance the CREATE project's objectives by addressing rail congestion issues in the region using private investment.
- CREATE originally was envisioned as an approximately \$1.5 billion public/private infrastructure initiative, with funding coming from the federal government, the Illinois government, the City of Chicago, and the railroads.
 - Congress provided significantly lower funding in 2005 in the SAFETEA-LU legislation than advocated by CREATE's proponents.
 - This enables only a partial implementation of CREATE in upcoming years and, with continued funding uncertainties, leaves realization of the remainder of the project – including the construction of a new CN Central Corridor route through Chicago – in question.
 - CN's use of private investment will save taxpayer funds while producing the routing benefits that would have been available from the proposed Central Corridor and, by eliminating its construction, will minimize community disruption and dislocation in Chicago's core.
- The acquisition will make it possible for the City of Chicago to realize its goals with respect to the St. Charles Air Line more quickly than under the current CREATE scenario, as CN could re-route its operations off the Air Line earlier once critical track connections are approved, constructed, and operational.
- CN remains supportive of CREATE and recognizes that its completion is important for the nation's and region's transportation system to deal with the challenges of freight and passenger growth.



CONCLUSIONS

- This acquisition is a good deal for all stakeholders
 - The streamlined rail operations and reduced congestion resulting over time from this acquisition will benefit current CN and EJ&E customers, the greater Chicagoland community, and the Chicago-area rail network as a whole.
 - The acquisition will drive new efficiencies and operating improvements on CN's network.
 - The majority of the present EJ&E employees will be joining CN.
 - The acquisition should have a positive impact on passenger services operated on CN in the region as freight traffic entering Chicago is shifted from CN's lines to the EJ&E.
 - The acquisition is a step in the right direction for the CREATE project and will advance CREATE's objectives more quickly.
- The acquisition will be another step in CN's long-term commitment to reduce costs and improve service and fits into the broader operational improvements CN has been making to our U.S. operations – for example, those anticipated and associated with the development of Johnston Yard in Memphis, TN.
- The service and other benefits expected from this acquisition can best be realized by acquisition and control of the EJ&E by CN so as to assure coordinated operations of the lines and sufficient investment to maximize overall efficiency in the interests of customers using both railroads.
- If the STB categorizes this acquisition as a minor transaction and approves it, closing should be possible in mid-2008.





Traffic Changes on CN Rail Line Segments in United States Affected by Canadian National/EJ&E West Company Transaction

Rail Line Segment Description				Freight - Trains/Day			Freight - Gross Tons/Day				Hazmat; Carloads/Year		
Segment										Percent			
Number	From Station	To Station	Road	Base	Change	Total	Base	Merged	Difference	Change	Base	Merged	Difference
	Matteson	Markham	CN	13.5	(5.5)	8.0	77,887	35,256	(42,631)	-55%	140.7	12.8	(127.8)
2	Markham	Harvey	CN	16.4	(14.4)	2.0	120,026	11,561	(108,464)	-90%	229.8	6.7	(223.1)
	Harvey	Riverdale	CN	6.5	(6.5)	0.0	41,843	-	(41,843)	-100%	117.9	-	(117.9)
4	Riverdale	Kensington	CN	6.4	(6.4)	0.0	31,990	-	(31,990)	-100%	101.2	-	(101.2)
5	Kensington	Wildwood	CN	6.5	(6.5)	0.0	26,983	-	(26,983)	-100%	68.3	-	(68.3)
	Wildwood	94th St	CN	6.5	(6.5)	0.0	26,398	-	(26,398)	-100%	67.3	-	(67.3)
6	94thSt	67th St	CN	8.4	(8.4)	0.0	26,398	-	(26,398)	-100%	67.3	-	(67.3)
	67th St	16th St	CN	6.5	(6.5)	0.0	26,398	-	(26,398)	-100%	67.3	-	(67.3)
	16thSt	Bridgeport	CN	4.0	(4.0)	0.0	26,398	-	(26,398)	-100%	67.3	-	(67.3)
8	Bridgeport	Belt Crossing	CN	2.6	(0.9)	1.7	17,062	840	(16,221)	-95%	62.2	6.1	(56.2)
9	Belt Crossing	Hawthorne	CN	4.5	(2.8)	1.7	27,795	840	(26,955)	-97%	82.5	6.1	(76.4)
10	Hawthorne	Broadview	CN	4.6	(1.2)	3.4	35,713	2,066	(33,647)	-94%	69.8	1.5	(68.3)
	Broadview	Munger	CN	3.0	(1.3)	1.7	24,899	1,476	(23,422)	-94%	60.5	0.6	(60.0)
12	Bridgeport	Lemoyne	CN	2.2	(0.5)	1.7	15,192	840	(14,351)	-94%	57.4	6.1	(51.3)
13	Lemoyne	Glenn Yard	CN	2.2	1.5	3.7	26,732	2,123	(24,609)	-92%	90.4	18.6	(71.8)
14	Glenn Yard	Argo	CN	3.9	(1.9)	2.0	23,855	8,071	(15,785)	-66%	88.1	50.3	(37.9)
15	Argo	Millsdale	CN	0.0	2.0	2.0	14,812	8,071	(6,742)	-46%	71.9	50.3	(21.6)
16	Millsdale	Joliet	CN	0.0	2.0	2.0	10,868	8,071	(2,797)	-26%	39.0	50.3	11.3
17	Madison St	Forest Park	CN	7.8	(7.8)	0.0	53,186	-	(53,186)	-100%	77.3	-	(77.3)
18	Forest Park	B12	CN	8.4	(8.4)	0.0	53,186	-	(53,186)	-100%	77.3	-	(77.3)
19	B12	Schiller Park	CN	19.5	(15.8)	3.7	135,609	8,009	(127,600)	-94%	158.7	7.2	(151.5)
20	Schiller Park	Leithton	CN	19.4	(17.4)	2.0	136,888	9,286	(127,602)	-93%	157.8	6.3	(151.5)
21	Griffith	Thornton Jct	CN	19.7	(12.9)	6.9	127,071	32,481	(94,590)	-74%	229.5	24.3	(205.2)
22	Thornton Jct	CN Jct	CN	26.1	(21.1)	5.0	112,627	22,280	(90,347)	-80%	221.9	24.3	(197.6)
23	CN Jct	Blue Island	CN	14.3	(13.3)	1.0	111,904	10,719	(101,185)	-90%	160.7	17.5	(143.2)
24	Blue Island	Hayford	CN	4.2	(4.2)	0.0	18,331	-	(18,331)	-100%	38.8	-	(38.8)



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Poil Line Segment Description				Fusioht Tusing/Day			Freight Cuess Tone/Dov				Hazmat Carloads/Year		
Rail Line Segment Description Segment				Freight - Trains/Day			Freight - Gross Tons/Day Percent				Carloads/Year		
Number	From Station	To Station	Road	Base	Change	Total	Base	Merged	Difference	Change	Base	Merged	Difference
15	Rondout	Leithton	EJE	3.2	0.0	3.2	3,222	2,038	(1,184)	-37%	9.4	9.4	-
14	Leithton	Spaulding	EJE	5.3	15.0	20.3	20,457	158,701	138,244	676%	10.1	174.4	164.3
13	Spaulding	Munger	EJE	5.5	18.0	23.5	23,285	173,935	150,650	647%	21.0	200.6	179.6
12	Munger	West Chicago	EJE	4.4	20.0	24.4	14,397	184,969	170,572	1185%	21.1	265.5	244.4
11	West Chicago	East Siding	EJE	10.7	23.8	34.5	62,233	245,049	182,816	294%	30.7	301.4	270.7
10	East Siding	Walker	EJE	15.7	26.6	42.3	87,162	301,359	214,197	246%	43.4	379.3	335.9
9	Walker	Bridge Junction	EJE	18.5	26.6	45.0	89,329	304,113	214,784	240%	48.9	384.7	335.9
8	Bridge Junction	Rock Island Jct	EJE	18.5	26.6	45.0	78,157	291,439	213,282	273%	49.0	384.8	335.9
7	Rock Island Jct	Matteson	EJE	6.4	22.0	28.3	35,375	226,994	191,619	542%	51.4	353.2	301.8
6	Matteson	Chicago Hts	EJE	8.6	22.7	31.4	44,601	231,173	186,572	418%	44.3	428.3	384.0
5	Chicago Hts	Griffith	EJE	10.2	23.7	34.0	47,842	239,310	191,468	400%	44.7	436.3	391.7
4	Griffith	Van Loon	EJE	7.6	20.0	27.6	29,536	218,124	188,588	639%	45.5	447.0	401.5
3	Van Loon	Ivanhoe	EJE	9.7	19.0	28.7	42,024	213,554	171,531	408%	45.5	423.3	377.8
2	Ivanhoe	Cavanaugh	EJE	9.8	20.0	29.8	41,879	240,913	199,034	475%	52.5	486.6	434.0
1	Cavanaugh	Gary	EJE	11.8	20.0	31.8	44,098	243,124	199,026	451%	0.0	434.0	434.0
0	Gary	Indiana Harbor	EJE	3.5	0.0	3.5	13,340	21,860	8,520	64%	0.0	10.0	10.0
-1	Indiana Harbor	Hammond	EJE	1.8	0.0	1.8	6,594	9,060	2,466	37%	0.0	1.4	1.4
-2	Hammond	South Chicago	EJE	0.9	0.0	0.9	925	3,391	2,466	266%	9.4	10.8	1.4

Attachment A.2



Impacts of Acquisition

	Mirro	shar of town	_									
	Number of towns											
Road	Decrease	Increase	No change	Total								
CN	61	0	6	67								
EJE	0	34	10	44								
OTHER	19	0	0	19								
Total	80	34	16	130								
	Population											
Road	Decrease	Increase	No change	Total								
CN	3,900,970	-	-	3,900,970								
EJE	-	865,508	188,029	1,053,537								
OTHER	173,920	-	-	173,920								
Total	4,074,890	865,508	188,029	5,128,427								
	R											
Road	Decrease	Increase	No change	Total								
CN	167	0	0	167								
EJE	0	105	0	105								
OTHER	40	0	0	40								
Total	207	105	0	312								

