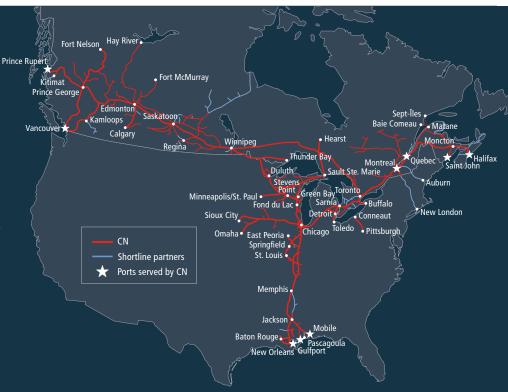


# **Our Business**

# A true backbone of the economy

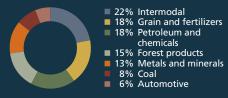
We operate a transportation business comprising rail, intermodal, truck, freight forwarding, and warehousing and distribution. Our network of approximately 20,000 route miles of track spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. Our goal is to run a safe and efficient railroad, create value for both our customers and shareholders, and be internationally regarded as one of the best-performing transportation companies.



# A Balanced Portfolio of Business

# 2012 Commodity Mix

% of rail freight revenues



Our freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. In 2012, no individual commodity group accounted for more than 22% of revenues. Our product and geographic diversity better positions us to face economic fluctuations and enhances our potential for growth opportunities.

# **Shared Value Creation in 2012**

Revenues

\$9,920M

generated from our customers through service delivery

Customers

\$250B

in goods handled by our unique three-coast North American network **Employees** 

\$1,952M

of wages, including employee stock-based compensation, health and welfare and pension benefits

Shareholders

\$652M

of dividends paid to shareholders

**Suppliers** 

\$2,772M

of expenses for purchased services, materials and fuel

**Communities** 

\$763M

of income and operating taxes paid

# Message from the President and CEO

# Claude Mongeau, President and CEO



Welcome to the summary version of CN's fourth Delivering Responsibly Report, providing a snapshot of some of the many ways we are working hard to create a sustainable future.

Our sustainability agenda is a source of pride for all of us at CN. We are an engaged corporate citizen, committed to the safety of our employees, the public and the environment, creating value for customers to support their success in global markets. We are dedicated to building stronger communities and providing a great place to work.

Environmental sustainability remains a strategic priority for the company, with a focus on emissions and energy efficiency, waste management, and ecosystem preservation. Since its inception in 2011, our EcoConnexions program in partnership with Earth Day Canada, has engaged over 7,000 enthusiastic CN railroaders to share and fulfill our commitment to environmental sustainability.

CN's strategic priorities for the short and medium term continue to be on investments in infrastructure, technology and training to keep communities, employees and customers' goods safe. As our long-service employees retire, we will continue to strengthen our safety culture as we welcome thousands of new hires to our company.

At CN, we know that our long-term success is connected to a sustainable future. As North America's leading railroad, we know people expect the best of CN. And we take that

responsibility very seriously. Our goal will be unwavering: to continue to run a safe and efficient railroad, create value for both our customers and shareholders, and be internationally regarded as one of the best-performing and responsible transportation companies.

Claude Mongeau

President and Chief Executive Officer

#### ACKNOWLEDGEMENT OF OUR SUSTAINABILITY EFFORTS



Ranked on the Global 100 Most Sustainable Companies in the World in 2012



Listed on the North American Index for the fourth consecutive year and the World Index in 2012



Ranked on the Best 50 Corporate Citizens in 2011 and 2012



Recognized as a Carbon Disclosure Leader in Canada for the fourth consecutive year in 2012

# Stakeholder Engagement

# Fostering honest and consistent communications

We value our stakeholders and consider their views and opinions as crucial to our business success. Our stakeholder engagement strategy is focused on building lasting relationships with shareholders, employees, governments, industry partners, customers, suppliers, communities and Aboriginal people.

At CN, we are committed to participating, through open dialogue, on issues that are relevant to our business and to the interests of our stakeholders. Given the nature and scope of our business, we are highly visible throughout North America – making stakeholder engagement a key component of our strategic agenda.

#### **Shareholders**

Our ability to create sustainable value for our shareholders is enhanced by our focus on running a responsible, safe, reliable and efficient railroad. From January 2011 to December 2012, CN's share price increased by over 35%. During the same time period, we returned over \$4 billion to shareholders through dividends and share buy-back.

# **Industry Partners**

We are committed to engaging with our industry partners in an environment of mutual cooperation. We have set our sights on becoming a true supply chain enabler, and we are helping to galvanize all the players in the supply chain to move from a silo mentality to daily engagement, information sharing, problem solving and execution. Supply Chain Agreements with ports, terminal operators and customers are used to measure success as a team, not as the individual components of the supply chain.

### Suppliers

We are committed to working collaboratively with our suppliers and in addition to influencing our suppliers to offer innovative, cost-effective and sustainable products and services, we are incorporating diversity and inclusivity within our supply network.

#### **Customers**

Customer service is at the forefront of our innovations in the market. Over the past year, we have made important strides in fine-tuning our services with supply chain partners in our effort to create value for our customers. We also sharpened our focus on the first-mile/last-mile services. which includes a major push to improve equipment order fulfillment rates and to enhance day-to-day communications with our customers.

# **Aboriginal People**

We are committed to preserving the unique traditions, culture and social structure of Aboriginal communities. Our objective is to develop respectful and mutuallybeneficial relationships with all Aboriginal people.



"One of CN's key objectives is to be a customer-centric company by ensuring more regular proactive communication with customers. Facilitated by our CustomerFirst program and the frequent communication that it generates, we can continuously improve our key service metrics."





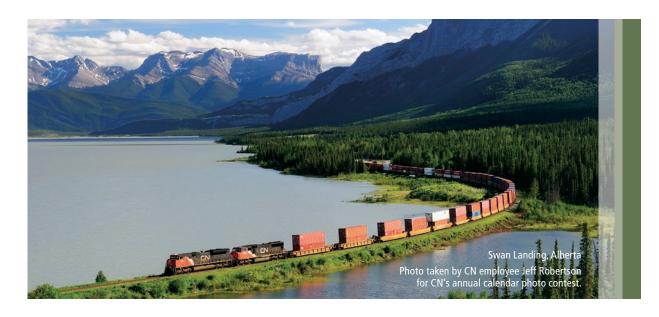
"CN's Investor Relations program is keenly focused on ensuring timely, transparent communication on the financial and non-financial issues that matter most to the investment community. We're proud to have been recognized in 2011 and 2012 for the quality of our ESG performance and disclosure."

IANET DRYSDALE Vice-President, Investor Relations

# **Environment**

# Taking action to protect the environment

We are focused on conducting our operations in a manner that protects the natural environment. We are committed to respecting applicable laws and regulations and we take necessary measures to prevent pollution, reduce our greenhouse gas (GHG) emissions, conserve natural resources and protect ecosystems.



At CN, we recognize that minimizing our environmental footprint is fundamental to achieving sustainable business success. First and foremost, it is important for us to think and act in the interest of future generations. We are focused on conducting our operations in a manner that protects the natural environment. Furthermore, transporting goods in an environmentally sustainable manner improves our operational and cost efficiency, meets our customers' environmental objectives and positions us positively with our stakeholders.

Our environmental policy articulates our commitment to prevent and minimize our impact on the environment, while maintaining a continuous improvement mindset. Our strategy is focused on emissions and energy efficiency, waste management and biodiversity and land management.

Through our EcoConnexions program, we are engaging our employees in the sustainability effort, specifically, in conserving energy, reducing waste and improving housekeeping in our yards.



#### 2011 AND 2012 HIGHLIGHTS

- Scored 84% on the environmental dimension of the DJSI in 2012
- · Reduced our rail GHG emissions intensity by 14% since 2005
- 39% reduction in hazardous waste since 2010
- · Spent over \$39 million on site assessments and remediation in 2011 and 2012



"We believe one of the best ways we can positively impact the environment is by continuously improving our operating efficiency and reducing our carbon footprint."

#### NORMAND PELLERIN Assistant Vice-President, Environment and Sustainability





shipping by rail can be up to four times more fuel-efficient than shipping by truck



→ LIQUEFIED NATURAL GAS (LNG): We are working collaboratively with our suppliers to test LNG solutions for transportation as a means to advance CN's sustainability agenda and reduce emissions.

# **Emissions and Energy Efficiency**

# **Reducing Our Rail Carbon Footprint**

For many years, the pursuit of efficiency has been our hallmark. With our Precision Railroading model, the purchase of fuel-efficient locomotives and numerous other programs that advance railroad fuel efficiency, we have improved our fuel and carbon efficiency by 38% since 1991. Today, we lead the North American rail industry, consuming approximately 15% less fuel per gross-ton-mile overall than the industry average.

# **Reducing Our Non-Rail Carbon Footprint**

Building upon our industry leading rail fuel efficiency programs, we are extending the same efficiency mindset to all our non-rail fleets, including our intermodal equipment and trucking fleet, On Company Service vehicles and our Great Lakes shipping vessel fleet.

Greater fuel efficiency of intermodal equipment is being achieved through the use of Ford EcoBoost fuel efficient engines, EcoTherm insulated containers, the Miller EnPak truck integrated hydraulic pump and generator and container positioning. By reducing container gaps, the "sail" effect is reduced, which in turn decreases wind resistance and fuel consumption. We are also using Compressed Natural Gas (CNG) in tractors at a few of our intermodal terminals.

# **Reducing Our Building Operation Carbon Footprint**

We are committed to reducing GHG emissions from the use of natural gas and electricity at our buildings and yards. We have implemented a number of initiatives including an energy management monitoring system, upgrade projects at existing buildings and yards, and sustainable design of new buildings.

improvement over 20 years

## Rail Locomotive Fuel Efficiency USG per 1,000 revenue ton miles (RTM)

2.60 2.40 2.20 2.00 1.80 1.60 1.40

Since 1991, we have improved our fuel efficiency by 38%. Today, we lead the North American rail industry in fuel efficiency.

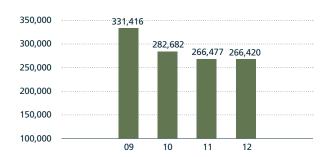
### Rail Locomotive GHG Emissions Intensity kgCO<sub>2</sub> per 1,000 gross ton miles (GTM)

Actual 13.50 13.00 12.50 12.00 11.50 11.00

We have reduced our rail GHG emission intensity by 14% since 2005. We are now well on our way to meeting our target to reduce emission intensity by 15% by 2015 from 2005 levels.

■ Target

# **Building and Yard Natural Gas and Electricity GHGs** tCO<sub>2</sub>e



We have reduced energy consumption at our buildings and yards as a result of various building and equipment upgrades.

# **Waste Management**

We are focused on preventing and reducing waste by making better decisions about the materials, products and services we use to run our business. This enables us to realize cost efficiencies, gives our employees a sense of pride, supports responsible products and services from suppliers and creates a positive image in the communities where we operate. Our waste and resource conservation initiatives are focused on reducing, reusing and recycling waste at our facilities, yards and across our entire network.

To execute our strategy, we are working with waste contractors to develop an accurate inventory that better reflects the weight and composition of our waste streams while ensuring adequate waste sorting equipment exists across our network.

# **Biodiversity and Land Management**

Protecting natural ecosystems and the unique habitat of species remains a constant priority at CN. As our network extends to three North American coasts, it passes through a wide range of habitats, including national parks, forests, prairies and wetlands. These habitats are home to rich and diverse species, while providing essential ecosystem and social benefits to the surrounding communities. We are committed to improving the environment where we operate and conducting our activities and operations in a way that minimizes our disturbance on these ecosystems.

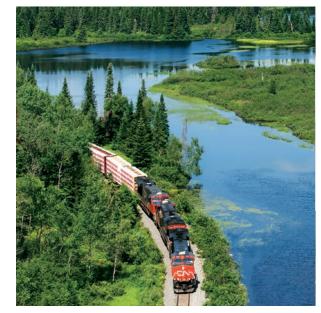
693,194



metric tonnes of scrap metal recycled since 2010 including freight cars, scrap wheels, axle gearings, rail and work equipment



**▼ ECOCONNEXIONS - EMPLOYEE ENGAGEMENT PROGRAM:** In partnership with Earth Day Canada, our EcoConnexions employee engagement program is focused on environmental action and stewardship. It includes targeted reductions in energy consumption, waste management and housekeeping at our yards and offices.



#### **↗** PROTECTING AQUATIC LIFE:

We are sensitive to the need to balance essential track work with aquatic protection. To minimize our impact, we have developed a Fish Culvert Passage program to address and correct fish migration issues through the replacement or modification of culverts.

# Safety

# Unwavering safety culture

At CN, nothing is more important to us than running a safe operation. We are committed to safeguarding employees, assets, customers and the communities in which we operate at all times. Our vision is to be the safest railroad in North America by establishing an uncompromising safety culture that leads to sustained leadership in safety.



#### 2011 AND 2012 HIGHLIGHTS

- 15% improvement in our FRA Injury ratio
- 11% improvement in our TSB accident ratio
- Responsible Care® re-certification
- Enhanced our contractor safety process through eRailSafe
- Developed a heat mapping risk tool
- Initiated the construction of the CN Campus training centres



Our strategic priorities for the short and medium term continue to be on investments in infrastructure, technology and training to keep communities, employees and customers' goods safe. In 2012, we saw strong performance on our safety targets. Our main track accident performance was the safest on record. To minimize risk and reduce injuries and accidents in day-to-day operations, we focus our safety initiatives in the following areas:

#### **Process**

Process initiatives aim to make safety a systematic part of all railroad activities and to prevent the leading causes of accidents and injuries.

### **People**

People are at the heart of safety at CN. We work hard to create a safe environment for our employees and we invest significantly in training, coaching, mentoring, and recognition and employee involvement in initiatives in order to embed a safety culture in all aspects of our operations. We are also taking a systemic approach to developing and training the many new railroaders we hire every year, our new CN

Campus will be anchored by two state-of-the art training centers in Winnipeg, Manitoba and Homewood, Illinois.

### **Technology and Investment**

We are committed to investing in infrastructure and technology to enhance safety and to improve reliability for our customers. We rely on a wide range of leading, state-of-the-art technology to run a safe railroad including Ultrasonic Rail Flaw Detection cars and the largest network of Wheel Impact Load Detectors in North America.

\$1.8B



invested in capital programs in 2012, of which more than \$1 billion was spent to keep our track safe and fluid

# **Further Strengthening Our Safety Culture**

The safety of our operations and of the communities through which our trains pass is of the utmost importance to CN. The Montreal, Main and Atlantic Railway rail accident at Lac-Mégantic was the most devastating in decades and a sober reminder to the industry that safety and preventing accidents must be an absolute priority.

Building on our robust train securement policies, we have adjusted our safety practices to ensure we are in compliance with the revised Canadian and U.S. regulator standards regarding the transportation of dangerous goods. These new safety rules enhance and standardize the effectiveness of train securement procedures and safety across the Canadian rail industry. CN's policy is to meet or exceed all regulatory requirements.

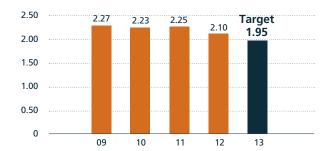
The long-term improvement in CN's safety record is also driven by investments in infrastructure, rigorous track and train inspection, as well as a continuing focus on employee training and safety awareness. We share information with emergency responders on the commodities that are handled through their jurisdictions and work closely with communities through the Transportation Community Awareness and Emergency Response program (TRANSCAER®) to help them understand the movement of hazardous material and respond to an incident.



▼ SAFETY CULTURE: We provide extensive training, coaching, recognition and employee involvement initiatives in order to strengthen our safety culture.

# **FRA Train Accident Ratio**

Accidents per million train miles



Our FRA accident ratio improved 7% in 2012 from 2011. The improvements are a result of the use of heat mapping to pinpoint accident causation and the focus of our safety task forces on human factors that led to accidents.

# TSB (Canada) Accident Ratio

Accidents per million train miles



Our TSB accident ratio improved 11% in 2012 from 2011. The improvements are a result of our strong focus and coaching on the root causes of main track accidents through engineering and mechanical initiatives.



**▶ RESPONSIBLE CARE® RE-CERTIFICATION:** We obtained our recertification in 2012. In addition, through TRANSCAER® we help communities understand the movement of hazardous materials and what is required in the event of transportation incidents.

# People

# Developing the best railroaders

As we evolve into a multi-generational workforce, we are even more focused on providing a safe, supportive work environment that values diversity, respect, integrity and pride. We are dedicated to ensuring employees can grow to their full potential and be recognized for their contributions to our success.



Like other companies in North America, changes in employee demographics, training requirements and the availability of qualified personnel are constant business challenges. Approximately 30% of our workforce will be eligible to retire or will leave through normal attrition over the next four years. Because our workforce is undergoing such a significant shift in composition, it has become even more important to engage every employee in our transformation journey.

# **Attracting Top Talent**

To continue to be a leader in the North American transportation industry, we must attract the right people. By making significant investments to educate candidates about our jobs, our business and what we stand for, and by focusing on key initiatives, we can make sure we are hiring qualified and diverse candidates who have the right fit and skills for CN.



#### 2011 AND 2012 HIGHLIGHTS

- Hired and engaged approximately 2,400 new employees in 2012 through our Onboarding program
- Increased the average hours of training per employee by 80% since 2009
- Ratified collective agreements covering approximately 4,600 employees in 2011 and 2012
- Reached out to 241 groups and associations in 2012 to promote diversity at CN



"It takes vision and a variety of tools to build a company differentiated by its people. The way we tie together employee hiring, onboarding and development makes our whole workforce greater than the sum of its parts."

KIMBERLY A. MADIGAN Vice-President, Human Resources

# **Onboarding**

Our unique Onboarding program prepares new employees across our network for their railroad career. Over the first 18 to 24 months of their railroading careers, new hires receive ongoing training, we get to know them and they become familiar with their fellow railroaders and our business. Over the past two years, we welcomed and engaged with approximately 4,400 new hires. As our retiring employees exit the workforce, we are proud so many new railroaders are choosing CN as their employer.

### **Developing the Best Railroaders**

Developing the best railroaders in the industry is a priority for us. The more our employees realize their full potential and the more they understand our business and goals, the more likely they will be invested in our shared success. Empowering employees in this way also reinforces our trust and appreciation for their knowledge and talent. Our strategy focuses on enhancing the capabilities of employees though training excellence and developing talent for growth.

# **Connecting with Employees**

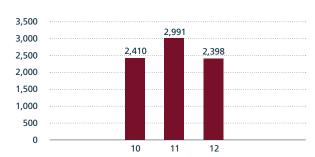
Deepening our employee engagement is a key priority. It means connecting more effectively by encouraging two-way communication between employees and their direct supervisors as well as other levels of management. And while we dedicate much of our efforts to attracting and onboarding new hires, we also connect with our entire workforce – both newer and more seasoned employees alike.



**↗ CN CAMPUS:** These state-of-the-art facilities in Winnipeg, Manitoba and Homewood, Illinois will revitalize and modernize the way we provide training and leadership development.

# **7,799** new hires since 2010

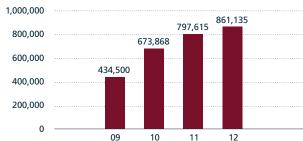
#### **Number of New Hires**



In 2012, we welcomed approximately 2,400 new hires. The involvement of employees in our CN Ambassador program played an important role in our recruitment efforts.

98% increase

# **Total Hours of Training**



Since 2009, we have almost doubled the total hours of training for our employees and are committed to keeping our training programs current and relevant.



**▶ PRESIDENT'S AWARDS FOR EXCELLENCE:** CN's highest form of recognition rewards exceptional achievements that bring our guiding principles to life - service, cost control, asset utilization, people, safety and sustainability.

# Community

# Making a difference

We reach people living in hundreds of communities across North America and around the world. We contribute to their lives in a broad sense through our impact on economic development, outreach in communities and community investment programs, including the numerous safety initiatives that we support.



#### 2011 AND 2012 HIGHLIGHTS

- Placed fourth in the list of Best
  50 Corporate Citizens in Canada
- Expanded our community investment strategy to include environmental sustainability and diversity objectives
- Invested approximately \$19 million in community organizations, including the CN Railroaders in the Community program



Building safer, stronger communities creates social and economic progress and makes the communities where we operate better places to live and work. Our spirit of caring is expressed through our community investment strategy focusing on health and safety for young people, environmental sustainability, diversity, transportation education and the CN Railroaders in the Community program.

# **Health and Safety for Young People**

Our CN Stronger Communities Fund supports initiatives that help prevent childhood injuries and promote healthy lifestyles. We also support children's hospitals in their efforts to fight childhood diseases. The All Aboard for Safety program is our flagship community education program to help prevent fatalities and injuries on or near railroad property.

# **Environmental Sustainability**

We invest in initiatives that protect the natural environment. We support organizations that are actively engaged in protecting the environment by reducing waste and pollution through conservation strategies. We also promote innovative solutions for reducing carbon emissions and

conserving natural resources. We are engaged with various organizations working toward these objectives, including Ducks Unlimited Canada, Trans Canada Trail, Calgary Greenway Royal Botanical Gardens, Tree Canada and Communities in Bloom

220





safety blitzes at commuter stations and railway crossings across Canada and the U.S. in 2012

# **Diversity**

Creating a workplace that reflects the diversity of the wider world in which we operate just makes good business sense. It's the best way we know to ensure we have the breadth of talent and perspective to effectively serve our diverse customer base and improve our bottom line. Managing diversity is an ongoing process at CN. We continue to support a number of organizations and initiatives that encourage diversity. Aligned with our policy of inclusion, diversity and tolerance, the CN Stronger Communities Fund provides support to organizations and programs that promote the advancement of woman, Aboriginal people and minorities.

#### **Transportation Education**

By supporting transportation education, we are helping today's youth become tomorrow's railroaders – the people who will shape the success of CN and the North American economy. Our goal is to promote post-secondary education in sustainability and cleaner transportation modes, railroad engineering and mechanics, and transportation policy.

Some of the institutions we support include the John Molson School of Business at Concordia University and the Department of Civil and Environmental Engineering and the Urban Transportation Center at the University of Illinois.

### **CN Railroaders in the Community**

We are proud of our employees, their families and retired employees who volunteer their time to make their communities stronger and better places to live and work and the CN Railroaders in the Community program recognizes these efforts by providing grants to the community-based charitable organizations they choose to support through their volunteer efforts

# **Partnering for Success**

CN's EcoConnexions – From the Ground Up program, was launched in 2012, to promote the greening of municipal properties across Canada, especially areas close to rail lines. In partnership with Tree Canada and Communities in Bloom, the program helps beautify communities, and generate many other environmental and social benefits.

Since its inception, we have planted more than 2,100 trees and shrubs in communities along our network. And in 2013, we completed eight mass tree forestation programs, planting over 200,000 trees, in partnership with Tree Canada and Arbor Day, five in Canada and three in the U.S.



ECOCONNEXIONS - FROM THE GROUND UP: In the first year of the program, 25 municipalities, including Aboriginal communities, received grants of up to \$25,000 to establish tree planting and green space enhancements initiatives in a sustainable, environmentally responsible manner.



"Working with my colleagues from the rail industry and communities across our network, progress is being made in finding ways that communities and railways can co-exist in close proximity to each other. This is an important priority for CN."

**SEAN FINN** Executive Vice-President, Corporate Services and Chief Legal Officer



invested in our communities in 2012: 42% charitable donations, 53% community investments and 5% commercial initiatives

# Governance

# Committed to good governance

We are committed to the highest standards of ethical business conduct. Our governance practices are designed to assist us in achieving our corporate objectives while encouraging an innovative spirit among employees and enhancing shareholder value.



Our corporate governance standards form the foundation of our system to ensure that accountability and risk management are embedded throughout the company.

# **Risk Management and Business Continuity**

Risk management is essential to protecting, enhancing and creating shareholder value, operating efficiently and providing a safe and healthy environment for employees, customers and other stakeholders.

Business continuity management is part of our day-to-day work, our corporate fabric and culture. We constantly take measures to prevent crisis situations from occurring. Our crisis management programs enable us to guickly respond to emergency situations, and our recovery plans enable us to resume business effectively.

# **Values, Policies and Codes**

Our guiding principles, Code of Business Conduct, corporate governance policies, and environmental, health and safety policies frame our values and commitments to delivering responsibly.

Our five guiding principles will continue to move us forward as CN strives to become a true supply chain enabler, working closely with our people, customers and partners to enhance the efficiency, transparency and sustainability of the supply chain:

- **Service** means doing what we say we'll do every time for our customers.
- **Cost Control** means the right and tight management of all expenses
- **Asset Utilization** means maximizing the use of assets.
- Safety and Sustainability means 100% compliance, 100% of the time and reducing our impact on the environment
- People are the foundation on which all the other principles are built.

Our Code of Business Conduct covers fundamental principles governing ethical business conduct. It reflects our commitment to engaging with our stakeholders with trust and integrity and the importance of maintaining a positive reputation in all aspects of our business.



#### 2011 AND 2012 HIGHLIGHTS

- · Appointed a new Vice-President, Safety and Sustainability
- Listed on the DJSI World Index
- · Recognized by the Coalition of **Good Corporate Governance for** the Best Disclosure of Approach to Executive Compensation

# Key Achievements

**Connecting performance to strategy** 

We are proud of our performance on Delivering Responsibly. Here is a glance at our key achievements in the areas of environment, safety, people, communities and governance. Our success remains our people. Their pride and passion help us make a difference.

#### REDUCING OUR CARBON FOOTPRINT

# Rail Locomotive GHG Emissions Intensity kgCO<sub>2</sub>/1000GTM

14%

reduction since 2005 as a result of fleet renewal, technological applications and fuel efficiency programs



# UNWAVERING SAFETY CULTURE

### **Number of Safety Culture Surveys**

17

surveys conducted since 2010 that included a measure of our safety culture



#### INVESTING IN OUR PEOPLE

# **Average Hours of Training per Employee**

80%

increase since 2009 with an average of 36 hours per employee in 2012



#### DIVERTING WASTE FROM LANDFILL

#### **Waste Generated**

(Excluding locomotive batteries, rail ties, and scrap metal) Metric tonnes

16%

reduction since 2010 through recycling and employee engagement programs and working with our suppliers



#### **INVESTING IN OUR COMMUNITIES**

# **Employee Volunteering Hours**

(During personal time)

27,840

hours employees volunteered in 2012 to build stronger communities through our Railroaders in the Community program



#### **ACHIEVING BEST IN CLASS**

**World Dow Jones Sustainability Index** 

91%

score in corporate governance on the World Dow Jones Sustainability Index in 2012, the highest score reached by a company in our sector



