



SUSTAINABILITY REPORT

Delivering Responsibly





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Continuing Our Journey

Delivering Responsibly is one of the most important dimensions of what CN stands for. It drives how we conduct our business every day – moving customer goods safely and efficiently, ensuring environmental stewardship, attracting and developing the best railroaders, adhering to the highest ethical standards and building safer, stronger communities.

ON THE COVER:

Deanne Haldane
Stores Attendant, Thornton Yard
Surrey, British Columbia

About this Report

**Communicating our progress
with focus, clarity and comparability**



“This report reflects our dedication to continuously improve disclosure on our sustainability commitments. It provides an update on our performance, and the achievements we have made to build a safer, stronger and more responsible CN.”

MICHAEL FARKOUH
Vice-president, Safety and Sustainability

Our Approach and Scope

This is our fourth Delivering Responsibly sustainability report, documenting our strategy, programs and achievements in the areas of environment, safety, people, community and governance.

The scope of information covered in the report relates to our operations in Canada and the U.S. Both quantitative and qualitative information is presented in this report for the 2011 and 2012 calendar years, unless otherwise noted.

Our sustainability report is issued on a biennial basis. We produced our first report in 2006, our second in 2008, and our third in 2010. For access to previous reports and additional information not covered in this report, please visit www.cn.ca/delivering-responsibly.

Report Content

The report has been developed in accordance with the Global Reporting Initiative (GRI) G4 core standard reporting guidelines. The GRI is an independent institution that provides a standard framework for sustainability reporting across companies and industries. To inform the content of the report, we have applied the principles of materiality and stakeholder inclusiveness to assess relevant topics that are important to us and to our key stakeholders.

In 2013, we conducted a formal stakeholder engagement survey to refine our understanding of the issues of importance and to guide the development of the report content. Our stakeholder engagement and prioritization process is located in this report on pages 8 and 15.

While the report is produced for a wide range of stakeholders, it does not include all the information on our programs and achievements. We provide more detail on our website, which hosts numerous corporate disclosure reports as well as information on our policies, initiatives and culture, and via other publications and CN's social media platforms. We also provide information to the Carbon Disclosure Project, the Dow Jones Sustainability Index and other organizations that assess our sustainability performance.

An index of our conformance to the GRI G4 core reporting requirements and references to other relevant information sources is presented on our website at www.cn.ca/delivering-responsibly.

Assurance

Over the past few years, we have enhanced our data management processes and systems as part of our continuous improvement efforts. We are confident in the overall reliability of the data in our report, but also recognize the inherent uncertainty of some data.

This year the Greenhouse Gas (GHG) emissions from locomotive fuel consumption for the calendar years ended December 31, 2011 and 2012 were verified by PricewaterhouseCoopers to a limited level of assurance in accordance with the ISO 14064-3: 2006 Specification with guidance for the validation and verification of greenhouse gas assertions. As our data systems and processes mature, we will work toward expanding the assurance of our sustainability data.

Feedback

We would welcome any views on the topics described in this report or on the report itself. Open dialogue is a fundamental quality of our company's culture, both within our organization and with stakeholders. We invite readers to send comments, suggestions or questions on this report to Chantale Després, CN Sustainability Director, at the following email address: chantale.despres@cn.ca.

Message from the President and CEO

Claude Mongeau, President and CEO



At CN, we know that our long-term success is connected to a sustainable future. 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.

Our fourth sustainability report, called Delivering Responsibly, contains 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 and I am happy to report CN railroaders have made notable progress in a number of areas. Key events marked our reporting period.

We saw strong performance on our safety and environmental targets. In 2012, our main-track accident performance was the safest on record. Environmental sustainability remained a strategic priority, focusing on emissions and energy efficiency, waste management, and

biodiversity and land management. We reduced our rail locomotive GHG emission intensity by 14% since 2005, and continue to lead the rail industry in fuel efficiency, consuming close to 15% less fuel per GTM than the industry average.

In 2013, CN earned four major accolades:

- a position in the CDP's Canada 200 Climate Disclosure Leadership Index;
- inclusion on the Dow Jones Sustainability World Index (DJSI) for the second year in a row and the fifth straight year on the DJSI North American Index;
- being named one of the 50 Best Corporate Citizens in Canada by Corporate Knights; and
- being listed on the Global 100 Most Sustainable Companies in the World.

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 and welcome thousands of new hires to CN. In response to our changing workforce composition, we are also increasing recruitment and taking every opportunity to extend our reach. In 2013, CN stepped up its stakeholder engagement

efforts with Aboriginal communities through more active recruiting as well as by fostering business opportunities and building strong personal relationships.

Looking to the future, one of the ongoing challenges for our industry will be to regain public confidence in rail safety following the Lac-Mégantic accident. CN and the rail industry will continue to respond proactively by taking a comprehensive view on ways to achieve further safety improvements, making a solid rail safety record even stronger.

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.

A handwritten signature in black ink, appearing to read 'Claude Mongeau'.

Claude Mongeau
President and Chief Executive Officer

Awards and Recognition

Acknowledgment of CN's sustainability efforts

Sustainability



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



Listed for the fourth consecutive year in 2012



Listed for the third consecutive year in 2012



Listed for the fourth consecutive year in 2012



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



Recognized for Best Disclosure of approach to "executive compensation" in 2012



Ranked on the Best 50 Corporate Citizens in 2011 and 2012



Ranked one of the Top 50 Socially Responsible Corporations in 2011 and 2012



Ranked one of Canada's Most Attractive Employers for the third consecutive year in 2012



Recognized on the Corporate Social Responsibility Rankings for the fourth consecutive year in 2012



Ranked one of Canada's 10 Most Admired Corporate Cultures of 2012

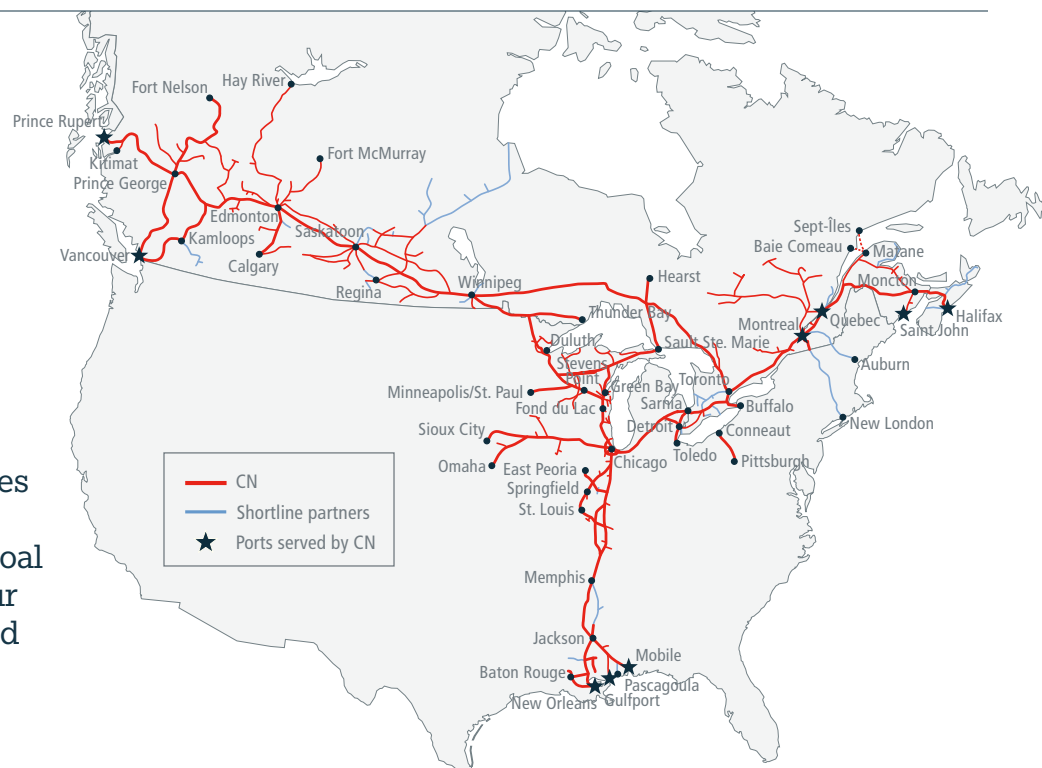
Governance, Environment, Safety and Community

ORGANIZATION	AWARD / RECOGNITION	RECOGNIZED FOR
American Chemistry Council	2012 TRANSCAER® Torch Award 2012 TRANSCAER® Individual Achievement Certificates 2011 and 2012 TRANSCAER® National Achievement Award	TRANSCAER® Team Member for significant accomplishments Dangerous Goods Team for HazMat transportation safety Assisting communities prepare for dangerous goods incidents
Call2Recycle	2011 and 2012 Leader in the Industry	Reclaiming and recycling batteries and cell phones
Chemistry Industry Association of Canada	2011 Chemistry Industry Association of Canada Award of Merit	Responsible Care® and TRANSCAER® communications
Evergreen Shipping Agency (America) Corporation	2011 Railroad Company of the Year	Consistent high level of performance
Inbound Logistics	2012 Green Supply Chain Partner	G75 Partner
Investor Relations (IR) Magazine	2011 and 2012 Best Investor Relations in the Transportation Sector 2012 Best Investor Relations by a Canadian company in the U.S. market	Best investor relations in the transportation sector Best investor relations by a Canadian company in the U.S. market
Railway Association of Canada	2012 Safety Award 2011 Environmental Award	Leader in rail safety culture Web-based real-time application to instruct engineers to conserve fuel and still maintain scheduled performance
Toyota Canada	2011 and 2012 Toyota Canada Carrier of the Year Award	Most reliable service in transit time, quality and customer service

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.



Profile

We handle approximately \$250 billion in goods a year and more than 300 million tons of cargo, serving exporters, importers, retailers, and farmers and touching the lives of millions of people every day.

We believe that North America's economic competitiveness and prosperity are closely linked to the strength of the transportation infrastructure. By growing our business, we reinforce our role as a true backbone of the economy and a key part of the solution to fostering long-term sustainable economic growth. This means, amongst other things, generating value for our shareholders, making our customers more competitive, providing quality employment, and contributing to community and infrastructure projects that enable social and economic progress.

Shared Value Creation in 2012

Revenues

\$9,920M

generated from our customers through service delivery

Shareholders

\$652M

of dividends paid to shareholders

Customers

\$250B

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

Suppliers

\$2,772M

of expenses for purchased services, materials and fuel

Employees

\$1,952M

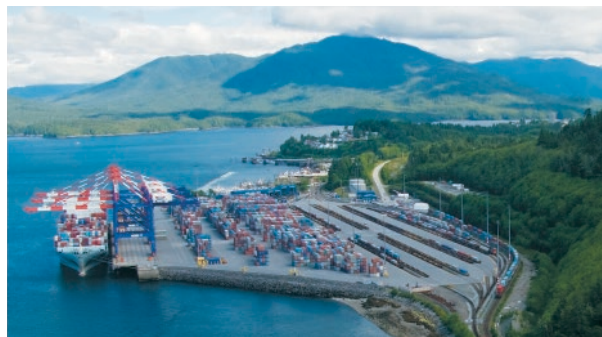
of wages, including employee stock-based compensation, health and welfare and pension benefits

Communities

\$763M

of income and operating taxes paid

Our Strengths



➤ SERVING ALL KEY MARKETS: Our network of strategically located intermodal terminals offers mobile access to the ports of Vancouver, Prince Rupert, Montreal, Halifax, Saint John, and New Orleans, taking goods to markets around the world from Asia to Europe to South America and beyond.

A Balanced Portfolio of Business

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.

Extensive Network

Our extensive network and alliances connect our customers to all three North American Free Trade Agreement (NAFTA) nations. With 19 strategically located Intermodal Terminals and 80 warehouses and distribution facilities across North America, we have access to over 75% of consumers across North America.

Our capital programs support our commitment to run a safe and efficient railroad. In 2012, we invested approximately \$1.8 billion, of which over \$1 billion was directed towards track infrastructure to continue operating a safe railway and improve the productivity and fluidity of the network. Our equipment capital expenditure reached approximately \$200 million, allowing us to tap growth opportunities and improve the quality of our fleet. We are also driving improvements through the reconfiguration of our yards and terminals and a dynamic ongoing review of train-design requirements in the face of changing markets and operating conditions.

Precision Railroad: A Superior Business Model

Our business model is anchored on five core principles: providing quality service, controlling costs, focusing on asset utilization, committing to safety and sustainability, and developing people.

Precision railroading is at the core of our business model. With precision railroading fewer railcars and locomotives are needed to ship the same amount of freight in a tight, reliable and efficient operation. These initiatives play a big part in our industry-leading operational efficiency and productivity.

Taking CN to the next level of operational and service excellence has meant providing an end-to-end perspective of a customer's supply chain while maintaining industry-leading cost control and asset utilization in our own operations.

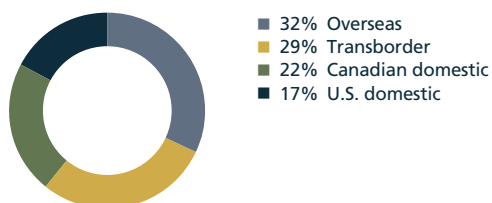
Becoming a True Supply Chain Enabler

Under collaboration agreements with all major ports, terminal operators and customers across Canada we monitor daily performance against specific targets, mutually agreed to by all parties, measuring success as a team, not as individual components of the supply chain.

This collaboration is at the heart of reliable end-to-end service, achieved through daily engagement, information sharing and problem solving to drive exceptional results.

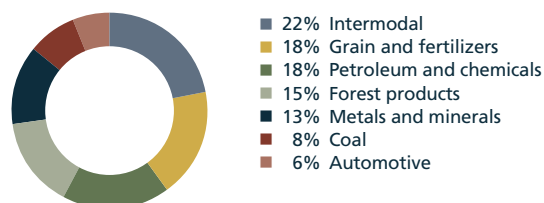
2012 Geographic Distribution of Revenues

% of revenues



2012 Diversified and Balanced Commodity Mix

% of rail freight revenues



2012 Capital Expenditures

\$1.8B

invested in capital programs in 2012 to operate a safe railway and improve the productivity and fluidity of the network

Vision and Strategy

Delivering goods safely and responsibly

At CN, we know that our long-term success is connected to our contributions to a sustainable future. As an engaged corporate citizen, we are committed to the safety of our employees, the public and the environment.

SUSTAINABILITY THRUSTS

- Improve locomotive fuel efficiency
- Improve vehicle and vessel fleet fuel efficiency
- Improve building efficiency
- Invest in sustainable information technology
- Minimize waste streams and ensure a clean workplace
- Promote green procurement practices
- Protect and preserve ecosystems



Environmental Sustainability Focus

Our strategic priority is environmental sustainability and we are focused on emissions and energy efficiency, waste and biodiversity and land management. EcoConnexions is our core platform that makes it possible for us to engage every CN employee in sharing and fulfilling our commitment to environmental sustainability. The catalyst for action is our Sustainability Action Plan organized around seven themes comprising of more than 50 projects. These projects are delivered with the oversight of our executive team, support of a Sustainability Committee and involvement of employees.

Emissions and Energy Efficiency

Our industry-leading fuel efficiency is the foundation of our sustainability strategy. To further reduce greenhouse gas emissions and increase energy efficiency, we have broadened our service and operating excellence mindset, founded on Precision Railroad, to every aspect of our business from our vehicle and vessel fleets, yards and intermodal equipment to our facilities and offices. Our culture of energy conservation is further strengthened through the EcoConnexions program.

Waste Management

Preventing and minimizing waste plays a critical role in sustainable resource management and conservation at CN. We are extending conservation solutions at our facilities

and across our network to improve waste management and promote green procurement policies. EcoConnexions plays an important role in our waste strategy by engaging employees in reducing, reusing and recycling waste and creating pride in a clean workplace.

Biodiversity and Land Management

We are committed to business practices that protect the natural environment. With operations and a network that passes through a wide range of habitats, we are taking extensive measures to minimize our impact on ecosystems, while striving for a net positive impact on biodiversity. This mindset extends beyond our operations to the communities we serve where we are sponsoring a mass forestation program of approximately 200,000 trees in strategic locations adjacent to our main lines.

Moving Forward

Our focus on environmental sustainability is well aligned with our business goals. With more goods to be moved and the need for more environmentally responsible solutions, we are well positioned to continue to play a leadership role in the transportation industry, creating economic prosperity, improving social well-being and contributing to a healthy environment for today and tomorrow.

Key Achievements

Connecting performance to strategy

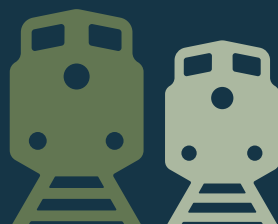
We are proud of our performance on Delivering Responsibly. Here is a glance at our key achievements in the areas of environment, safety, people, communities and governance. Our success remains our people. Their pride and passion help us make a difference.

REDUCING OUR CARBON FOOTPRINT

Rail Locomotive GHG Emissions Intensity
kgCO₂/1000GTM

14%

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



2005

2012

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



2009

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



2010

2012

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



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.

2011 AND 2012 HIGHLIGHTS

- Strengthened our stakeholder engagement strategy
- Engaged 258 stakeholders on the content of our 2012 sustainability report
- Surveyed 30 communities as well as government officials across North America
- Continued our focus on developing respectful and mutually-beneficial relationships with Aboriginal people



STAKEHOLDER ENGAGEMENT APPROACH

Through our stakeholder engagement approach, we systematically identify a diverse range of stakeholders including shareholders, employees, governments, industry partners, customers, suppliers, communities and Aboriginal people. We consult with them through open dialogue on issues of mutual interest. The information is used to inform program development and implementation, and to communicate with them on our performance.

Our Approach

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.

We engage stakeholders who affect, or are directly affected by, the impacts of our business. We are committed to understanding their issues and finding mutually acceptable solutions. Our engagement efforts take place on an ongoing basis through various mechanisms, including: opinion surveys, conferences and forums, one-on-one and group meetings and various social media networks.

In 2013, we engaged 258 stakeholders through a formal survey to gather knowledge on sustainability topics of most interest to them. The selection and identification of stakeholders included a consideration of their geographic representation, existing relationships with CN, as well as stakeholders who have already expressed an interest or requested information on our sustainability performance.

The results of this survey informed the development of the priorities (see page 15) and content of this report. It was an important exercise in gaining greater clarity on the issues and topics that most affect our stakeholders and helping us to better focus our continuous improvement efforts. In addition to informing our report content, we will use stakeholder input to guide our engagement activities over the following year and inform the evolution of our sustainability programs.

The following discussion provides an overview of our ongoing engagement with key stakeholders.

258



stakeholders responded to our survey in 2013 identifying the topics of most importance to them

Shareholders

We engage our shareholders through annual general meetings and quarterly conference calls, analyst and investor presentations and one-on-one meetings. Many of our shareholders are interested in understanding our environmental, social and governance (ESG) performance to fully judge our investment merit.

Our ability to create sustainable value for our shareholders is enhanced by our focus on running a responsible, safe, reliable and efficient railroad. We are also recognized for responsible business leadership through the North American and World Dow Jones Sustainability Indexes and the Carbon Disclosure Project Canadian Leadership Index.

From January 2011 to December 2012, CN's share price increased by over 35%. During the same time period, CN returned over \$4 billion to shareholders through dividends and share buy-back.

Governments

As a true backbone of the economy, we are an indispensable transportation supplier to many key sectors in North America, contributing to economic development and paying millions of dollars in provincial, state and federal taxes.

We are strengthening our engagement with governments across North America. Our senior executives are represented on advisory councils, review boards and regulatory proceedings, including the *Rail Safety Act* review, the Federal Maritime Commission inquiry and the Trans-Pacific Partnership negotiations. We also engage with governments on our environmental mitigation and rehabilitation plans.

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, working with industry partners through collaborative agreements to improve service delivery across the supply chain.

Our supply chain approach is redefining the way we interact with customers, suppliers and our industry partners: collaboration agreements with our terminal operator partners focus on improving dwell times, driving efficiency and improving communication with customers. We have agreements in the intermodal and other segments of our business. For example, in intermodal we are taking advantage of supply chain agreements to open new gateway markets, build mutual trust and focus on a few key performance metrics.



COLLABORATING WITH INDUSTRY PARTNERS: We are helping to galvanize all the players in a 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.

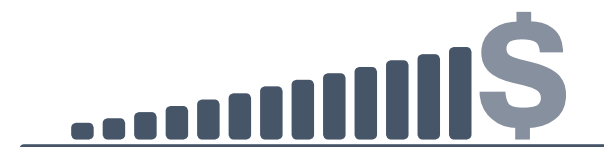


"CN's Investor Relations program is keenly focused on ensuring timely, transparent communication on the financial and non-financial issues that matter most to the investment community. We're proud to have been recognized in 2011 and 2012 for the quality of our ESG performance and disclosure."

JANET DRYSDALE
Vice-President, Investor Relations

16%

compound annual growth rate in CN's dividends to shareholders since the privatization of CN in 1995





➤ **SUSTAINABLE STATION SUPPLIES:** CN awarded the first Sustainable Procurement eXcellence award to Acklands-Grainger, jointly with Kimberly Clark for Sustainable Station Supplies at the CN Supplier Council in Montreal.



➤ **PUTTING CUSTOMERS FIRST:** Customer Service Representatives like Mylène Deshaies are key to the success of our CustomerFIRST initiatives to provide frequent and helpful communication to customers on car order confirmation and car supply performance.

Suppliers

We have approximately 15,000 suppliers worldwide providing services, materials and fuel valued at about \$2.8 billion. Based on the nature and type of products and services we procure, we have identified 150 critical suppliers with whom we engage regularly. Our critical suppliers include rail equipment manufacturers, fuel service providers, engineering and logistics contractors, among many others.

We engage with our suppliers through annual supplier council meetings as well as face-to-face meetings. Our suppliers want us to support their economic well-being, and provide fair contracts and efficient payment. We are committed to working collaboratively with our suppliers through our Sustainable Procurement eXcellence (SPX) strategy to identify sustainability as a differentiator when awarding business to or partnering with key suppliers. This means integrating environmental, social and governance (ESG) considerations into supplier assessments within the procurement process. 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

Our customers are at the forefront of our innovations in the market. We are committed to creating value for our customers by providing quality and cost-effective service. To do so, we interact with our customers on an ongoing basis to monitor and gain feedback on the quality of our service, as we strive for excellence in service delivery. We engage our customers through targeted satisfaction surveys and focused customer forums. Through our customer-centric focus and ongoing engagement, we have learned that our customers are not only seeking quality and cost-effective service but also safe, reliable and sustainable transportation solutions.

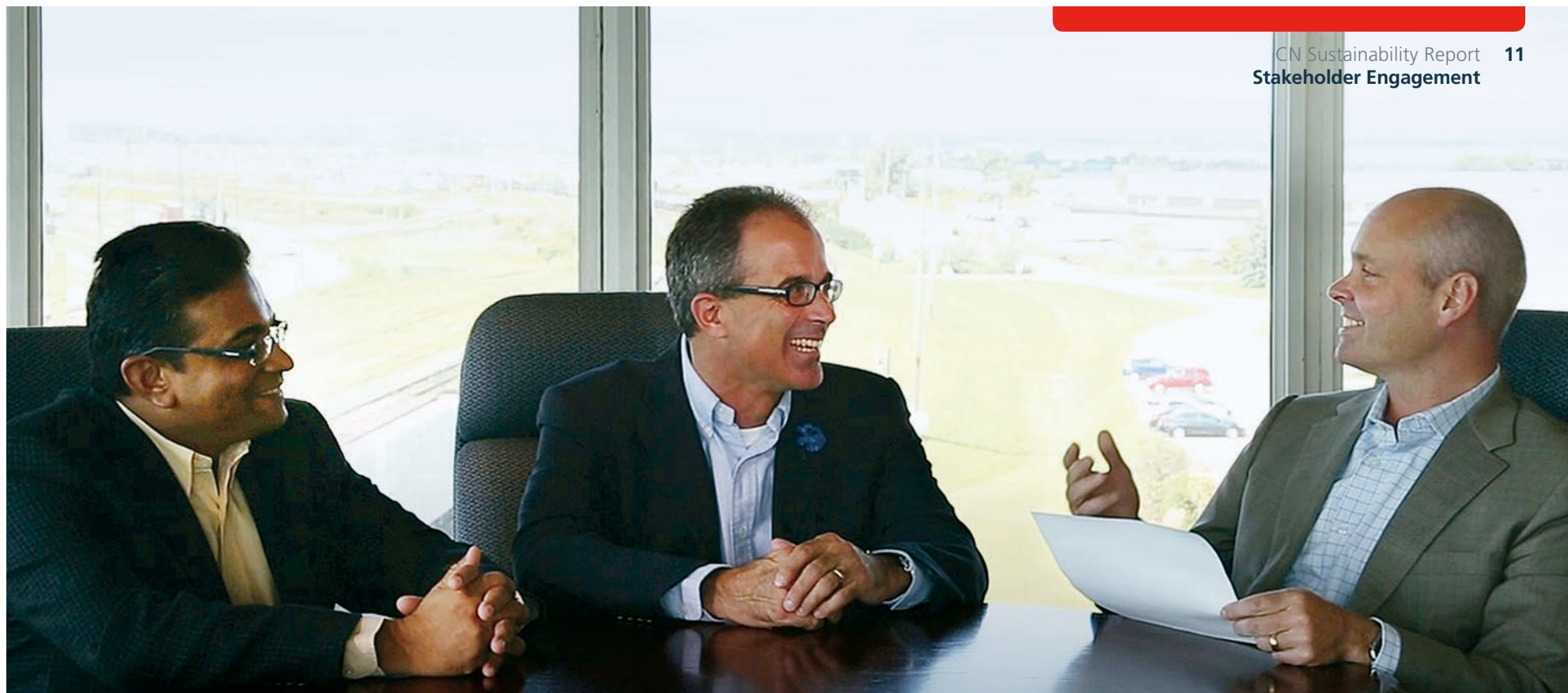
To meet their needs, we have continued to strengthen our focus on improving dwell times, driving efficiency and improving communication with customers through a series of CustomerFIRST initiatives.

One of our key objectives is to become a more customer-centric company by ensuring more regular and proactive communications with our customers. Our iAdvise process ensures we advise customers of service exceptions ahead of time so that they can adjust their work plans. Communication is central to how we want to improve at the first-mile/last-mile of our service offering.



"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."

FIONA MURRAY
Vice-President, Corporate Marketing



ABOVE:

Selling One CN makes it possible for our marketing staff like Rajan Chelleth (left), Michel Pelletier (middle) and Andrew Fuller (right) to offer our customers the right services for their needs.

CUSTOMER CENTRIC ENGAGEMENT SELLING ONE CN WINS OVER NEW 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 for the customer, which includes a major push to improve equipment order fulfillment rates and to enhance day-to-day communications with our customers.

Breakthroughs such as these are starting to speak for themselves, especially when Cascades, a major CN forest products customer, awarded CN with almost all of its intermodal shipments for the next two years. This accomplishment is the result of our teams' perseverance in building strong relationships with Cascades, and Selling One CN. According to Cascades, several factors tipped the scale, including a single point of contact, CN's ability to efficiently ship freight across Canada and the U.S., and competitive rates.



➤ **ENGAGING OUR EMPLOYEES THROUGH ECOCONNECTIONS:** CN President and CEO Claude Mongeau dropped in on the local launch of the EcoConnexions program at the Symington Yard to recognize and celebrate with our employees.



Employees

We have over 23,000 employees, of whom 76% are unionized. We engage with our employees through surveys and various media, including the quarterly *CN People* magazine and biweekly *CN Spotlight* newsletters. Our employees are interested in their safety, well-being and pride. We are committed to building positive relationships with our employees, engaging them through our EcoConnexions program, bringing new hires on board properly, and helping our people grow. We invest significantly in training, coaching, mentoring recognition, and employee involvement initiatives in order to embed a safety culture in all aspects of our operations. We place emphasis on building strong company-union relationships, facilitated through our ground-breaking grievance mechanisms.

Communities

We recognize our citizenship responsibility to the communities where we operate. Through ongoing dialogue and engagement, we understand that communities care most about their safety, well-being and security. Through our community networking plan, we work to maintain lines of communication between CN and the community on questions and concerns. Every year, we publish our *CN in the Community Report* to discuss the concerns raised by our neighbours and the steps we took to address their issues through mutually acceptable solutions.

➤ CN'S PUBLIC INQUIRY LINE:

Senior Customer Services Representative Louise LaRocque is one of the three Senior Customer Service Representatives who staff our Public Inquiry Line. She enjoys her contact with people across CN and engaging with our stakeholders to respond to their inquiries.

Aboriginal People

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

Through open dialogue with Chiefs and Councils, we understand that Aboriginal people care about land claims and resolving past issues, while preserving their traditional cultures and environments and building their economic well-being.

We work with Aboriginal people to provide economic benefits to local bands and with Aboriginal Affairs employment initiatives. As an active member of the Canadian Council for Aboriginal Business we are supporting various business development activities. We engage Aboriginal people through Railway Pre-Employment Training programs in British Columbia; and the Tribal Chiefs Association of Alberta, which encourage band members to apply for CN positions. We also sponsored the University of Winnipeg Indigenous Development program and the Soaring: Indigenous Youth Career Conferences, which aim to increase high school graduation rates and employment of young Aboriginal people.

We have Memoranda of Understanding (MOU) with Aboriginal groups, which include sections on employment, business opportunities and, archaeological and environmental matters. Controversies are rare and we believe informal dialogue is the best way to resolve issues, but if they cannot be resolved informally, the MOUs contain grievance and resolution mechanisms. The process may include a review by CN's Ombudsman office.

RESPECTFUL AND MUTUALLY BENEFICIAL RELATIONSHIPS WITH ABORIGINAL PEOPLE

The issues surrounding Aboriginal people claims are complex. We are committed to engaging with Aboriginal people through open communications, understanding and respect. In 2012, CN and the Gitksan First Nation, collaborated to conduct an extensive archaeological dig of an ancient village of Gitksan. The possible existence of the village first came to light after CN conducted an environmental assessment of the site in advance of the construction of a siding extension. The exploration is taking place at three locations by professional archaeologists and First Nations members with involvement of Aboriginal people.

ABOVE:
Corey Cookson (left) and Joel Sampare search for artifacts at the site of an ancient village in Gitksan, British Columbia.

Message from the COO

Jim Vena, Chief Operating Officer



When CN launched its sustainability agenda in the spring of 2010, it was the beginning of an enthusiastic movement across the company to do better. Today, this agenda has helped us capitalize on our strengths, building on a strong foundation as a responsible company.

Our sustainability agenda integrates our activities and shapes our thinking in a way that allows us to go further and make the most of our efforts to do the right thing. We have already achieved numerous successes over the years in environmental stewardship, including award-winning biodiversity efforts and ecosystem protection.

Since launching the agenda, we have reduced our carbon footprint through improving energy efficiency and diminishing emissions. That has included better locomotive fuel efficiency through changes to train handling and use of new technology, such as Wi-Tronix. Today, CN leads the North American rail industry in fuel efficiency. We have also reduced other energy consumption with

initiatives such as new lighting systems and more efficient air compressors, among other upgrades in our yards and buildings.

Through our EcoConnexions program, we are engaging our employees in the sustainability effort, specifically, in conserving energy, reducing waste and improving housekeeping. Since its launch in 2011, more than 7,000 employees have attended launch events and 400 EcoChampions have been trained. Many more are taking measures to prevent pollution, conserve, recycle and judiciously use the natural resources required for our operations. Together, we have engaged CN's railroaders to share and fulfill our commitment to environmental sustainability.

In 2012, CN extended its sustainability strategy with the launch of our EcoConnexions – From the Ground Up program to promote the greening of municipal properties across Canada, especially areas in close proximity to rail lines. CN, with its partners Tree Canada and Communities in Bloom, will help Canadian municipalities establish tree planting initiatives in a sustainable, environmentally responsible manner.

CN is also sponsoring mass reforestation programs in Canada and the U.S. Approximately 200,000 trees will be planted in strategic locations adjacent to CN lines in 2013.

Delivering Responsibly is one of the pillars of What CN Stands For. We are committed to building on what we have achieved to minimize our impact on the environment, while providing cleaner, more sustainable transportation modes to our customers.

A handwritten signature in dark ink, reading "J. Vena".

Jim Vena
Chief Operating Officer

Our Priorities

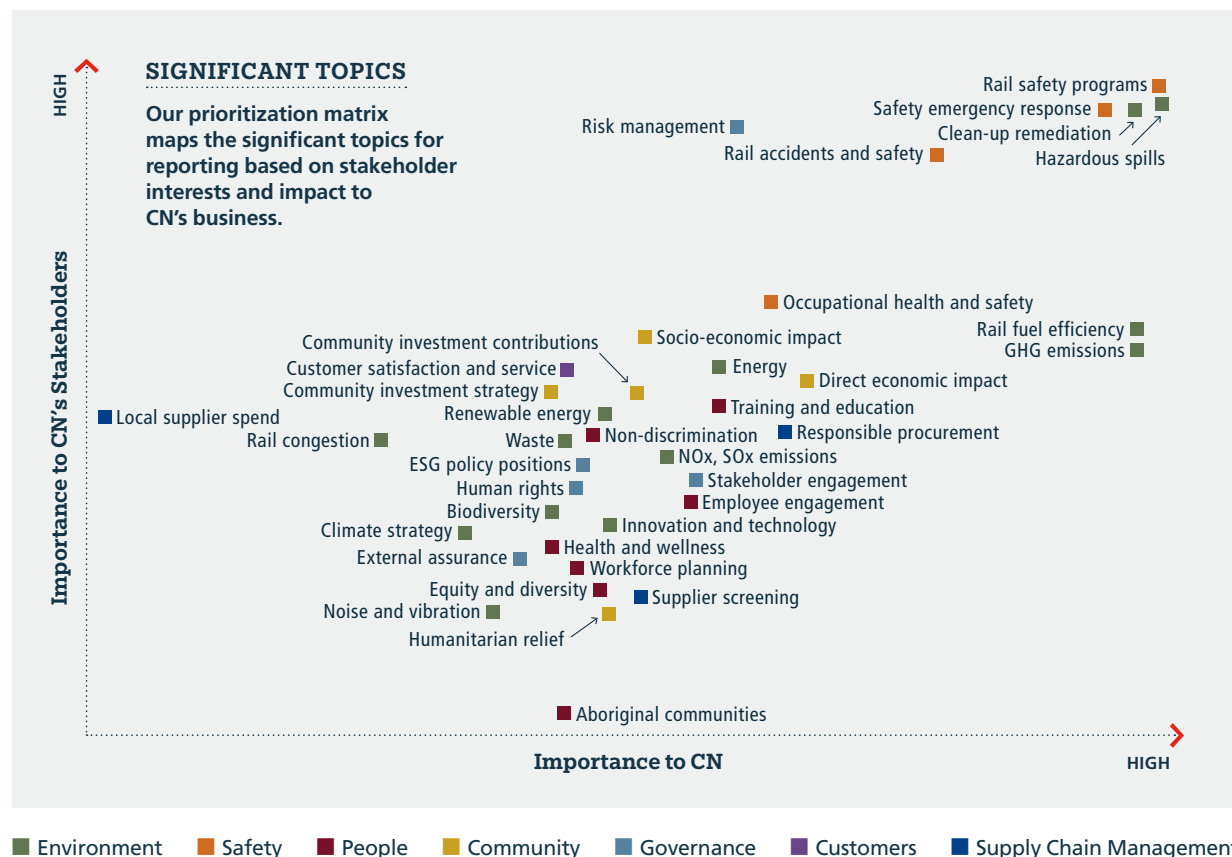
Identifying and reporting on what matters most

Our process of establishing priorities enriches our understanding of stakeholder expectations, helps us focus our strategic priorities, and refines our reporting.

In 2013, we enhanced this process by identifying 55 relevant topics and engaging 258 stakeholders on the importance of these topics. In addition, we engaged CN's internal cross-functional sustainability team and their delegates on the topics that could significantly impact CN's business.

We also identified where the impacts could occur within and outside of our business, including our suppliers, CN's corporate office, buildings and rail yards, CN transportation service and operations, our customers, and the broader community and ecosystem.

The diagram below provides an overview of where our impact could occur along the value chain. The boundary impacts of each significant topic can be found on page 70 and 71 of this report.



WHERE IMPACTS CAN OCCUR WITHIN AND OUTSIDE CN



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.

ABOVE:

Swan Landing, Alberta
Photo taken by CN employee
Jeff Robertson for CN's annual
calendar photo contest.

environment

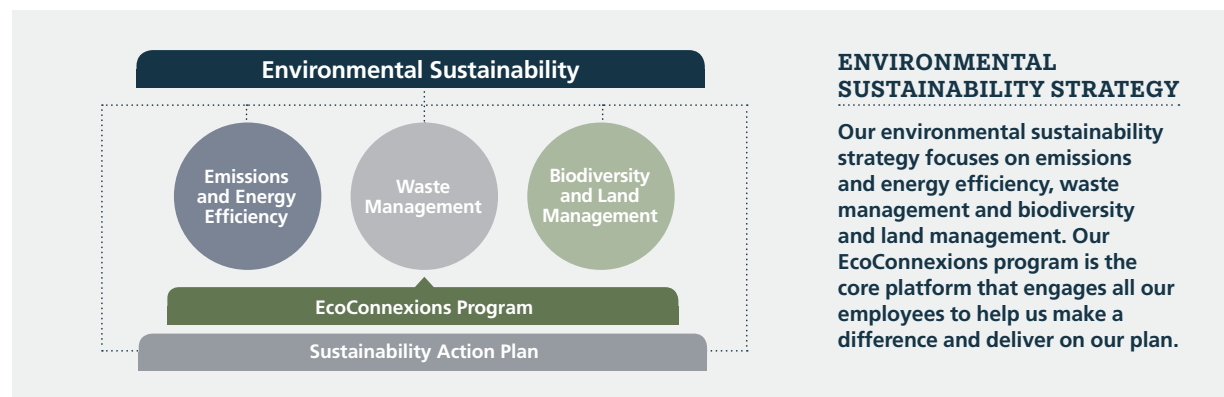
Taking Action to Protect the Environment

Environmental sustainability is a key part of our approach to delivering responsibly. We continue to make progress on preventing and minimizing our impact, while providing cleaner, more sustainable transportation modes to our customers.



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



Our Approach

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. 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.

The environmental sustainability strategy is overseen by the Assistant Vice-President for Environment and Sustainability. Progress is reported to the Vice-President of Safety and Sustainability, and ultimately to the Environment, Safety and Security Committee of the Board on a quarterly and annual basis. Our diverse team of environmental professionals comprises expertise from biologists and environmental engineers to experts in environmental site assessments. The team is responsible for executing our strategy, and engaging employees at all levels of the organization through our EcoConnexions program.

Environmental priorities are integrated into our overall sustainability action plan, and driven systematically through the Environmental Management System (EMS). The EMS provides the standards and procedures to ensure we respect applicable laws and corporate requirements, and establishes relevant risk mitigation measures, such as periodic audits, employee training programs and emergency plans and procedures.

Our team of environmental experts play an important role in training our employees, contractors and suppliers on these requirements and practices when working at our sites. Audits are conducted annually to validate compliance and ensure the sharing of best practices. The results are used to inform continuous improvement.

We are focused on preventing incidents through our environmental management procedures and audits. When an incident occurs, our comprehensive Emergency Response Plan and reporting procedures enable us to deal quickly and thoroughly with the situation to minimize impacts. The public can report environmental emergencies through a direct telephone line to the CN Police.

ECOCONNECTIONS: CN'S NEW ENVIRONMENTAL PARTNERSHIP



In April 2011, CN and Earth Day Canada signed a five-year partnership agreement under which the two groups will work together to encourage environmental values and initiatives among CN employees across North America. This employee engagement program is focused on environmental action and stewardship. It includes targeted reductions in energy consumption, waste management and improved housekeeping practices at our yards and offices. We have trained 400 employees to be EcoChampions with local teams at each yard to deliver and facilitate the program and engage their colleagues.

Earth Day Canada is a national environmental organization that provides practical knowledge and tools to reduce environmental impact. Since 2011, over 7,000 enthusiastic CN railroaders have attended launch events.

EcoCONNECTIONS



ABOVE:

CN employees formally pledge their commitment to environmental sustainability, facilitated through our EcoConnections program.



Emissions and Energy Efficiency

Promoting Innovative Paths

Climate change, particularly global warming, poses a threat to natural ecosystems, which in turn has the potential to impact CN's operations, those of our customers and the economies where we operate. We believe that an integral part of our success depends on our ability to mitigate the impact of, and adapt our business to, changing climatic conditions. We believe that rail can be an integral part of the climate change solution because of its environmental and economic advantages.

Our Strategy

Providing Sustainable Transport Solutions

We continue to increase stakeholder awareness of the environmental benefits of rail transportation. Compared with other transportation modes, rail is the most efficient method of moving freight – no other mode of land transportation can outperform rail for hauling large volumes of high-density freight over long distances. We have developed a GHG calculator and a modal shift quantification protocol that can be used by our customers to calculate the carbon credits resulting from switching freight from truck to rail.

Investing in Efficient Infrastructure

Service disruptions can result from weather events. We invest significantly in track infrastructure upgrades, execute seasonal readiness plans, test natural hazard warning systems, undertake regular rail inspections and ensure processes are in place to mitigate against and to recover from severe weather situations.

Reaching Out to Stakeholders

We support practical policy solutions that foster low carbon economic growth. We engage with Canadian provincial governments (British Columbia, Alberta, Saskatchewan), and the Western Climate Initiative on their cap and trade regulatory regimes, presenting opportunities to position our modal shift quantification protocol.

Tapping into Cleaner Energy Markets

We are also capturing opportunities in the sustainable energy product markets, including wind towers, biodiesel, and wood pellets. For example, in 2012, revenue from transporting wood pellets increased over 20% compared to 2011.

Reducing Our Carbon Footprint

Our carbon footprint covers our rail locomotive fleet (85%), non-rail vehicle and vessel fleet (8%), and buildings and yards (7%). With approximately 85% of our GHG emissions generated from rail, emission reduction in this area is a priority. For many years, the pursuit of efficiency has been our hallmark. With our Precision Railroading model, the purchase of fuel-efficient locomotives and the 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.

Building on our success, we broadened our commitment to operational and service excellence in fuel efficiency to every aspect of our business including rail, non-rail, buildings and yard operations.



"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

98%

score for our climate strategy on the 2012 Dow Jones Sustainability Index



4X



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



➤ **SAVING FUEL WITH TRIP OPTIMIZER** : Locomotive Engineers Randy Karius and Wayne Bokor have seen our trip optimizer technology in action and the potential for fuel savings through its cruise control features.



Reducing Our Rail Carbon Footprint

Our emission reductions take place on several levels, from our asset-lean Precision Railroading initiatives to our Fuel Management Excellence (FMX) program, yard locomotive operations and other collaborations across our value chain. All are anchored on our continuous improvement mindset.

Precision Railroading

Precision Railroading is at the core of our business model. Under this model, fewer railcars and locomotives are needed to ship the same amount of freight in a tight, reliable and efficient operation. The net result is greater reliability for our customers, improved asset utilization, increased fuel efficiency and reduced GHG emissions.

Fuel Management Excellence

Building upon the efficiencies gained through Precision Railroading, our innovative FMX program is driving both fuel efficiency and environmental benefits through a wide range of innovations.

Fleet acquisitions and upgrades enable us to increase fuel efficiency, improve service reliability and reduce GHG emissions. In 2012, we took delivery of 25 new high-horsepower locomotives and 123 second-hand high-horsepower locomotives. These locomotives are approximately 15% more fuel-efficient than the ones they replace and comply fully with regulatory requirements for reduced locomotive exhaust emissions.

➤ **REAL-TIME INFORMATION WITH WI-TRONIX**: Chief Dispatcher Clement LeBlanc sees Wi-Tronix providing real-time information on locomotive and train performance while optimizing fuel use by continuously scanning train operations for the proper application of train handling rules.

New technology applications and enhanced analytical capabilities also help improve the fuel efficiency of our freight operations:

- **Wi-Tronix®** provides real-time information on locomotive and train performance.
- **Trip Optimizer** is a train cruise control system that follows a pre-determined speed trajectory to optimize fuel efficiency.
- **Auto Engine Start Stop Technology** automatically shuts down an idle diesel engine, while keeping the locomotive in the proper operating state to start on demand.

These leading-edge technologies allow us to set fuel efficiency targets for specific trains by route and to monitor train performance against these goals. This strategy of producing real-time information is the next frontier in precision fuel management and is supporting our GHG reduction objectives.

Our train crew and rail traffic controllers are continuously being schooled on best practices, including fuel-efficient train handling techniques, matching power to train tonnage and limiting throttle use, and taking advantage of train pacing opportunities at train meets.

FMX is a vital part of taking our Precision Railroading model to the next level. Sophisticated fuel-efficiency and monitoring systems will aid our efforts to measure and report reductions of GHG emissions for CN and our customers. All this is vital as freight customers put greater emphasis on sustainable transportation options.

Improving Yard Efficiency

Our innovative SmartYard optimization system uses the best sequence for processing cars and makes the yard inventory adjustments to reduce yard dwell time, increase train speed and improve fuel efficiency. It also allows CN to handle increasing volumes of traffic through its yards without additional capital investment in the physical plant.

Supply Chain Enabler

Our supply chain approach is redefining the way we interact with customers, suppliers and other partners. In addition to routing protocol agreements and co-production arrangements, we are collaborating from end-to-end with ports, terminal operators and customers through collaboration agreements that focus on improving dwell times and driving efficiency, further enabling us to reduce GHG emissions and ensure better service for our customers.

Working with Our Suppliers

We are also working with our suppliers to explore the feasibility of using relatively cleaner Liquefied Natural Gas (LNG) on two existing diesel-fired locomotives. Longer term, we are collaborating with three other partners to explore an all-new liquefied natural gas locomotive engine as well as a specialized tender to carry the fuel.



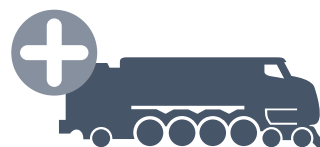
➤ **TESTING LIQUEFIED NATURAL GAS (LNG) ON LOCOMOTIVES:** Valuable insight into the use of LNG as an alternative to diesel on our locomotives has been gathered from a pilot test program. Because LNG has lower carbon content than diesel fuel, locomotives using LNG would produce fewer carbon dioxide emissions. LNG testing continued in 2013. We also expect to advance the technology in high horsepower locomotives.



"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."

GERRY WEBER
Vice-President,
Supply, Fleet and Fuel Management

148



fuel-efficient locomotives added to the fleet in 2012, aimed at increasing fuel efficiency and reducing GHG emissions

100%



score for fuel efficiency on the 2012 Dow Jones Sustainability Index (DJSI)



➤ **GREENING OUR SHIPS:** We restored the Edwin H. Gott ship with high horsepower engines that are 10% more fuel efficient than the engines they replace, reducing carbon dioxide emissions by 53 tonnes annually.



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 (OCS) vehicles and our Great Lakes shipping vessel fleet. Together, they represent approximately 8% of our total carbon emissions.

Intermodal Equipment

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. We are also using Compressed Natural Gas (CNG) in seven shunt tractors at our Taschereau yard. At around one-third the cost of diesel, CNG produces less particulate and nitrogen oxide emissions as well as 20% less GHG emissions. A more ambitious project involving up to 30 CNG shunt trucks is under way at our at our intermodal terminal in Brampton, Ontario – CN's largest.

Intermodal Trucking Fleet

A number of initiatives exist to reduce the use of fuel required to run the owner-operated trucking fleet. For example, we have a preventive maintenance detection program, route optimization initiatives and operator

➤ **INTERMODAL TRUCK PREVENTIVE MAINTENANCE:** Mechanic Fred Janiri in Brampton sees the additional fuel savings from our preventive maintenance detection activities, including targeted truck engine monitoring, semi-annual tractor inspections and safety and efficiency testing.

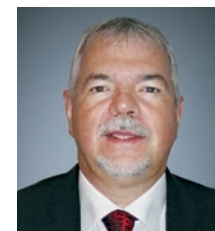
training. In 2012, progress was made in testing various aerodynamic designs such as mud flap and wheel covers to enable even greater truck fuel efficiencies. In addition, we also train our truck owner operators on fuel-efficient driving practices such as tractor maintenance, driving behaviour, route optimization, gear and wheel selection, speed control, idling and fuel levels. In 2012, we developed a system to recognize the most fuel efficient owner-operators.

On Company Service Fleet

Our OCS fleet consists of on-road and on-rail vehicles used to carry out our day-to-day business operations, as well as infrastructure and maintenance support. The fleet includes cars, light-duty trucks and specialized heavy duty trucks. We continue to update our fleet with more fuel-efficient vehicles, including those using fuel-efficient power sources such as hybrids. We also continue to train our crews to reduce unnecessary vehicle idling, speeding and insufficient vehicle utilization.

Shipping Vessel Fleet

We operate an eight-vessel shipping fleet, consisting of four motor and four steam vessels. To reduce our carbon emissions, we are replacing existing engines with new fuel-efficient engines and training ship operators on practices designed to reduce fuel consumption, such as speed protocols and operating parameters.



"We are making every aspect of our Intermodal business more energy efficient, from the trucks in our yards to the way we stack containers on our trains."

PIERRE ARSENAULT
General Manager,
Intermodal Operations



REDUCING INTERMODAL TRAIN GAPS IMPROVES AERODYNAMICS AND CONSERVES ENERGY



The pattern in which containers are stacked for shipment can greatly impact the aerodynamics of an intermodal train. Gaps create a “sail” effect, which increases wind resistance and fuel consumption.

Supported by intermodal staff, EcoConnexions developed a training and communication blitz to help crane operators, rampers and shunt truck drivers understand the importance of container positioning. In 2012, EcoConnexions engaged approximately 600 intermodal employees across the company in an effort to streamline trains by reducing the gaps between adjoining containers.

This is a key sustainability initiative that enhances CN’s environmental stewardship through reduced fuel consumption and lower emissions, engages employees and improves profitability.

ABOVE:
Intermodal Crane Operator Ben Brody (left) and Product Manager Lee Weiss (right) at the MacMillan Yard in Toronto, Ontario, see CN’s new training loading technique saves fuel simply through better planning.



EFFICIENCIES DELIVER BIG SAVINGS AT BRITISH COLUMBIA FACILITIES: Energy Manager and EcoConnexions Champion Hamid Kazmi partnered with the B.C. Hydro Power Smart Industrial Energy program to develop a comprehensive energy management program for CN. The goal was to eliminate energy waste, expand the use of efficient technologies and monitor energy usage.



Reducing Our Building Operation Carbon Footprint

The carbon footprint of our building operations accounts for 7% of our GHG emissions, including electricity and miscellaneous fuel consumption.

We are committed to reducing GHG emissions from the use of natural gas and electricity at our building and yards by 15% by 2013 from 2010. To meet this objective, we have a number of initiatives, including an energy management monitoring system, upgrade projects at existing buildings and yards, sustainable design of new buildings and IT system enhancements.

Energy Management System

We continue to monitor electrical and natural gas consumption in our yards remotely through power meters that use real-time data to control the energy load. In 2012, we installed check meters at key locations across our network to monitor the quality of power entering yards and consumption at key locations. To further enhance data management, we are exploring a web-based energy and GHG data management software to enable better tracking and benchmarking of our natural gas and electricity consumption.

TRACKING ENERGY USE THROUGH THE LOAD MANAGEMENT SYSTEM: Facility Maintenance Supervisor Dan Woodbeck developed the Load Management System for Winnipeg's Symington Yard to track real time energy consumption. The system is being promoted across CN, creating energy efficiency opportunities on switch blowers, light fixtures, boilers and air compressors.

We also implemented various data centre optimization projects, including a Tele-presence system between four locations: Montreal, Homewood, Toronto and Edmonton. We will be expanding access of the Tele-presence technology to increase productivity and reduce emissions from employee travel.

Building and Yard Improvements

Over the past few years, we completed a building inventory assessment to target energy reduction measures at our existing buildings and yards. In 2012, this inventory assessment allowed us to prioritize nine buildings to upgrade or replace. We also identified older equipment to replace with more energy efficient alternatives, including boilers, air compressors, HVAC systems and lighting.

We continue to incorporate Leadership in Energy and Environmental Design (LEED) criteria when expanding or constructing new office space. We have LEED-inspired buildings in Montreal, Edmonton and Homewood, including the recently established Calgary Logistics Park. Where feasible, we are also pilot-testing the use of cleaner energy sources, such as solar panels, wind turbines and geothermal energy.

Employee Awareness and Training

Our employees are integral to our ability to reduce energy consumption. The launch of the EcoConnexions program has been instrumental in giving employees the tools and techniques to change energy habits, and consider energy options when making decisions.

Emissions and Energy Performance

Our well-established reputation for efficiency is reflected by the recognition we receive for being environmentally responsible. In 2012, we scored 100% for fuel efficiency on the DJSI and were recognized on the CDP Canadian Disclosure Leadership Index.

We continue to make important strides in reducing our carbon footprint. Since 2005, we reduced our locomotive GHG emission intensity (tCO₂e/GTM) by 14%, and are on track to meeting our reduction target of 15% by 2015. We also reduced the absolute GHG emissions associated with natural gas and electricity by 19.6% since 2009.

In 2013, we will continue to elevate our performance through our locomotive acquisition and upgrade program, FMX strategy, continued innovation and greater efficiency across our business.

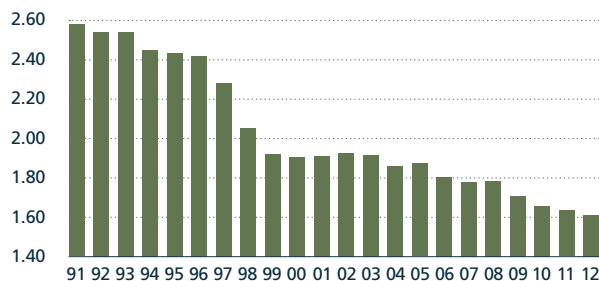


➤ INVESTING IN FUEL-EFFICIENT LOCOMOTIVES: We continue to acquire new, fuel-efficient locomotives and upgrade our existing fleet, enabling even greater fuel efficiency and lower GHG emissions.

38%

 improvement over 20 years

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

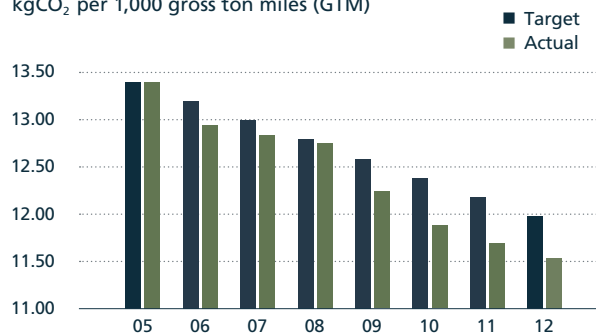


Since 1991, we have improved our fuel efficiency by 38%. Today, we lead the North American rail industry in fuel efficiency.

14%

 reduction since 2005

Rail Locomotive GHG Emissions Intensity
 kgCO₂ per 1,000 gross ton miles (GTM)

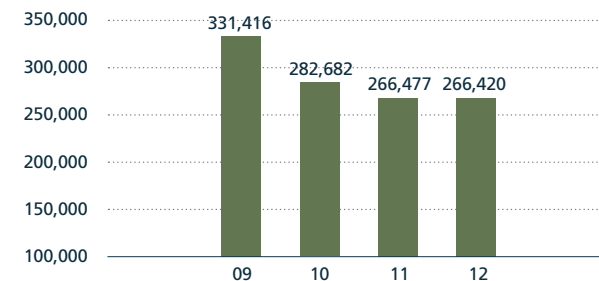


We have reduced our rail GHG emission intensity by 14% since 2005. We are now well on our way to meeting our target to reduce emission intensity by 15% by 2015 from 2005 levels.

20%

 reduction since 2009

Building and Yard Natural Gas and Electricity GHGs
 tCO₂e



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

Waste Management

Lessening Our Impact

Reducing the environmental impacts associated with resource consumption and waste generation is important. The growing demand for products and services is placing considerable strain on resources, as well as the land space to accommodate waste accumulation.

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 Strategy

Our environmental strategy formalizes our commitment to prevent and minimize the generation of waste, guiding the implementation of a wide range of waste and resource conservation management initiatives anchored on our continuous improvement mindset.

To better align our strategy with the principles of waste prevention, minimization and diversion, we are strengthening our existing culture of resource conservation among our employees through our EcoConnexions program. The initiative is being run through the Environmental Department with the engagement of more than 400 EcoChampions located across our network.

Our waste and resource conservation initiatives are focused on reducing, reusing and recycling waste at our facilities, yards and across our entire network.

Reducing Waste

We remain committed to supporting initiatives that prevent the generation of waste at the source. Over the past two years, we have focused our efforts on developing a waste inventory system and instilling a culture of resource conservation in our employees through better work practices. In 2011 and 2012, we developed a robust waste inventory to understand the quantity and composition of all our major waste streams.

Through our Sustainable Procurement eXcellence (SPX) program, we also engage with our suppliers to promote and encourage sustainable procurement options that consider the entire product life-cycle. Over the past year, our Supply Management Team has introduced more sustainable products, including a bioremediation product, sustainable paper supplies, packaging optimization of railway maintenance materials and LED bulbs for our locomotive fleet.



WORKING WITH WASTE

CONTRACTORS: 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 and recycling equipment exists across our network.

REDUCING WASTE THROUGH ECOCONNECTIONS



The EcoConnexions program encourages our employees to reduce waste. As part of our commitment to sustainable resource management, we encourage every employee to prevent pollution and to conserve, recycle and rationally use the natural resources required for our operations.

We have also developed a number of recycling programs for ferrous and non-ferrous scrap metal. These metals are largely from our shops and yards and include locomotive radiators, locomotive traction motors and generator parts.

The initiative is being run through the Environmental Department with the engagement of more than 400 EcoChampions working in almost every department and region of our business.

ABOVE:

Manager, Waste and Resource Conservation, Reid Bodley plays a key role in our EcoConnexions program, overseeing the installation of new waste and recycling bins at our yards, and providing training on waste conservation practices.





➤ **YARD HOUSEKEEPING AT TASCHEREAU YARD:** Mechanical Supervisor Gabriel Bélanger and his team of car maintainers at Taschereau Yard in Montreal established a system to organize parts that helps them reduce waste and maintain a clean, safer and organized work environment.



➤ **USED OIL:** Heavy Duty Mechanics Gary Cook (left) and Ross Ostrander (right) at MacMillan Yard in Toronto regularly drain used oil from locomotives with a hose evacuation system. In 2012, we recovered four million litres for recycling.

Reusing Waste

As part of our waste strategy, we are redirecting waste away from landfills and hazardous waste disposal sites and extending the life of products and materials by reusing them for other purposes. For example, we make every effort to reuse waste water from treatment plants to wash locomotives. We also recover and reuse used oil and engine coolants in locomotives.

Recycling Waste

We continue to expand our recycling programs to achieve even more waste diversion. Through our EcoConnexions program we are increasing awareness of waste sorting and recycling opportunities, and sharing best practices across our network. Our recycling activities include paper and cardboard, fluorescent bulbs, batteries, electronic waste, used oil, scrap metals, rail, railcars and rail ties. We have set a multi-year plan to collect and dispose of rail ties. A majority of our rail ties are being sent to cogeneration facilities where they are recycled to produce energy.

EcoConnexions Engagement Program

Through our EcoConnexions program we are engaging our employees and strengthening our culture of waste conservation. Since its launch in 2011, more than 7,000 employees have attended launch events and 400 EcoChampions have been trained. We conducted knowledge-sharing events at our yards to increase the overall awareness on waste segregation and conservation across our network. As a result of the program, our employees are even more engaged, taking measures to prevent pollution, conserve, recycle and rationally use the natural resources required for our operations. The program is also playing an important role in increasing efficiency in our buildings and yards and fostering a cleaner and healthier work environment.

Working with Earth Day Canada, we increased communications, established waste sorting guidance and recycling bins, shared best practices on waste management programs and encouraged employees to improve energy efficiency and maintain a clean workplace.

7.1M



rail ties were removed along our rail lines and in our yards in 2011 and 2012; 84% were recycled for energy

7.8M



litres of used oil recovered in 2011 and 2012 and sent for recycling

Waste Performance

Over the past year, we made significant progress developing our waste inventory. We worked collaboratively across our network and achieved a 16% reduction in waste since 2010. We also made significant progress on our plan to recover rail ties. Approximately 7.1 million rail ties were removed along our rail lines and in our yards in 2011 and 2012. Recovery of scrap metal is also underway with more than 693,000 metric tonnes of scrap metal recovered for recycling since 2010.

In 2013, we will continue to collaborate with our waste suppliers to define and improve services, processes and equipment, and standardize data collection and measurement methods.

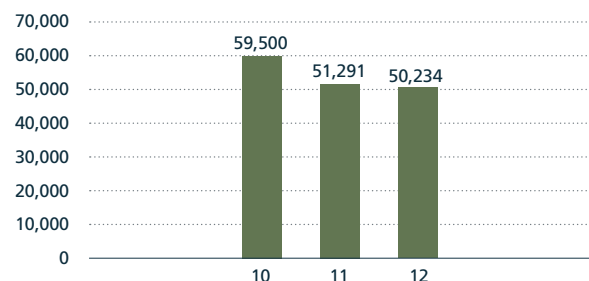


CUSTOMER COLLABORATION ON RECYCLING: Intermodal Operations Manager Caroline Moss Samonte at the Harrison Yard in Memphis supports CN's customer, International Paper (IP) as it collects our paper, plastics bottles and cans for recycling into IP products. As a result, CN has diverted approximately 44,000 pounds of recyclables from landfills every month.

16% reduction since 2010

Waste Generated

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

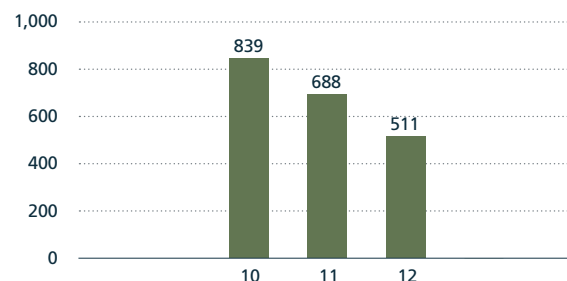


More waste is being directed away from landfills through recycling programs and energy recovery. We are also reducing waste at source by working with our suppliers.

39% reduction since 2010

Total Hazardous Waste Generated

Metric tonnes

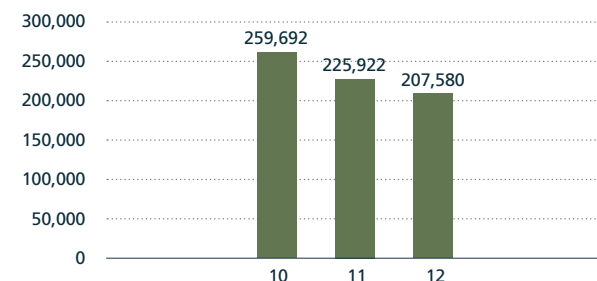


We have achieved a notable reduction in hazardous waste, which further reduces our impact on the environment.

693,194 metric tonnes recycled since 2010

Scrap Metal Recycled

Metric tonnes



We are recovering scrap metal for recycling, which includes freight cars, scrap wheels, axle gearings, rail and work equipment.

Biodiversity and Land Management

Creating Positive Impacts

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 of these ecosystems.



Our Strategy

Our approach to ecosystem and biodiversity preservation is focused on reducing our impact as we strive to create a net positive impact in the areas where we operate. To prevent and correct impacts on ecosystems, our environmental management team works diligently to ensure we meet or exceed all environmental regulations and, where relevant, self-regulate to minimize potential impacts from our operations. Our efforts are focused on proactive environmental assessments, ecosystem and biodiversity protection programs, and clean-up and remediation programs.

Environmental Assessments

Prior to initiating construction projects, we conduct environmental and social impact assessments to understand ecosystem and biodiversity risks and identify mitigation measures. These assessments typically involve detailed studies of fish and fish habitats, species at risk, vegetation and wildlife. We also engage stakeholders, including local communities, to gain a more holistic understanding of the potential impacts and to obtain feedback.

Our Geographic Information System (GIS) allows us to access data about nearby communities and sensitive habitats so that we can better understand the impacts of our operations. Over the next few years, we plan to complete a GIS map of the culverts, bridges and sensitive habitats in our entire network.

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.

Ecosystem Protection Programs

Once our projects have received all required permits and approvals, we monitor them during construction and after completion to ensure environmental protection measures have been developed and implemented. Our site assessments, capital improvements and employee guidelines for working in sensitive natural habitats, are enabling us to effectively manage environmental issues on our properties. Targeted programs help us prevent and correct ecosystem impacts, particularly on aquatic life and wildlife.

We share our environment with hundreds of wildlife species such as deer and elk. As part of our wildlife management, we map areas of high wildlife collisions and make efforts to prevent them. We also take extra precautions when railway track projects are located near watercourses. We develop targeted programs to protect aquatic life, including a Fish Culvert Passages program.

Clean-up and Remediation Activities

As stewards of the environment, we are committed to clean-up and remediation related to present and past ownership, operation or control of real property. Contaminated sites can result from railroad activities or accidental spills and releases. We continue to track our environmental liability performance, and are proactively managing and reducing our risks.

\$39M

spent on site assessments and remediation in 2011 and 2012
as part of our environmental stewardship responsibility

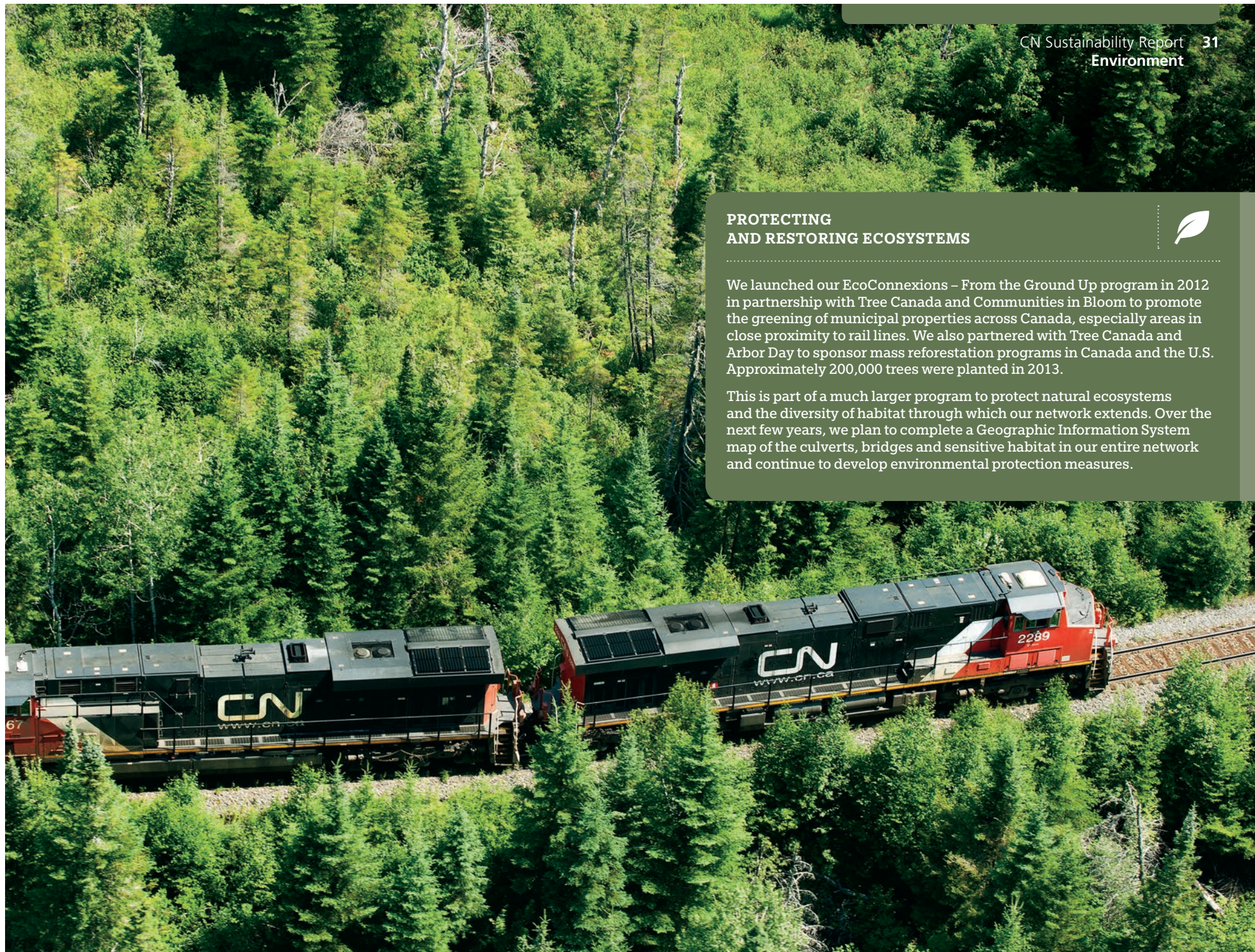


PROTECTING AND RESTORING ECOSYSTEMS



We launched our EcoConnexions – From the Ground Up program in 2012 in partnership with Tree Canada and Communities in Bloom to promote the greening of municipal properties across Canada, especially areas in close proximity to rail lines. We also partnered with Tree Canada and Arbor Day to sponsor mass reforestation programs in Canada and the U.S. Approximately 200,000 trees were planted in 2013.

This is part of a much larger program to protect natural ecosystems and the diversity of habitat through which our network extends. Over the next few years, we plan to complete a Geographic Information System map of the culverts, bridges and sensitive habitat in our entire network and continue to develop environmental protection measures.



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.

ABOVE:
Grant Moore
Car Mechanic, Maher Terminal
Prince Rupert, British Columbia

safety

Unwavering Safety Culture

Safety is a core value that forms the foundation of everything we do. This value has helped our company rank consistently among the safest railroads in North America. We work closely with federal, provincial and state agencies to meet and exceed safety standards and environmental regulations. We also partner with municipalities and customers to integrate their safety procedures with ours.



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



SAFETY MANAGEMENT SYSTEM (SMS)

Our Safety Management System (SMS) is a proactive, comprehensive program designed to minimize risk and drive continuous improvement in our day-to-day operations. SMS initiatives focus on four areas: people, process, technology and investment. Each year we make significant investments in safety training, technology and infrastructure to ensure a safe and secure working environment and to deliver our customers' shipments on time and damage-free.

Our Approach

At CN, nothing is more important than safety. We fully recognize our moral and social responsibility to operate safely in order to protect the health and well-being of our employees, business partners, customers, the general public, and the environment. In addition to this responsibility, it is also a business imperative – we cannot provide reliable and efficient service if we do not operate safely.

Our Safety Policy establishes our commitment to provide the leadership, organization, training and resources necessary to maintain a safe, secure and healthy workplace.

All operations managers, supervisors and employees have specific safety responsibilities and objectives, which are established annually and measured on an ongoing basis through the Employee Performance Scorecard (EPS). At the executive level, formal responsibility for Health and Safety has been assigned to the Vice-President Safety and Sustainability. Safety performance is communicated to the Leadership Team, and ultimately to the Environment, Safety and Security Committee of the Board to ensure effective risk identification and management.

To incorporate safety into our daily operations and to monitor effectiveness, we focus our initiatives in the areas of people, process, technology and investment.

Process

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

Safety Management System

Our Safety Management System (SMS) is the framework for putting safety at the centre of our day-to-day operations. It is designed to minimize risk, drive continuous improvement in the reduction of injuries and accidents, and engage employees in enhancing our safety culture.

We have also developed a contractor safety program, which we enhanced in 2012, to ensure that contractors working on CN property are fully aware of applicable rules and policies. As part of our SMS, we establish annual safety targets and develop initiatives to support safety performance at all levels of the company.

Risk Assessments

Risk assessments allow employees and functional managers to understand the potential safety hazards and impacts of their job activities so that they can prevent or minimize the risk of an injury or accident. Our website provides employees with risk assessments and important safety information.



➤ **CONTRACTOR SAFETY PROCESS:** In 2012, we enhanced our contractor safety process with the implementation of eRailSafe in both Canada and the U.S. The program collects, verifies and tracks important contractor information as well as safety awareness training and tests.



Safety Audits

We conduct three levels of safety audits: system integrated audits that assess compliance with the SMS, operating rules and safety culture; regional and functional audits, including safety blitzes and technical audits; and local audits that focus on operational activities and efficiency.

Our safety audit process has helped us identify areas for improvement and important new safety initiatives. We also proactively identify and track near misses, including rule violations, uncontrolled movements of equipment, main track authority violations and train handling violations. Near miss information helps us understand causation factors and prioritize areas of improvement.

To further enhance our process, we are piloting a near miss hotline called PREVENT with Saint Mary's University. The PREVENT confidential telephone hotline provides a means for employees to report near miss events, rules non-compliance, incidents and other significant safety issues through a non-punitive process. Saint Mary's is collecting the information and conducting a research study of near miss events that led to accidents or incidents in the workplace.

➤ **RESPONSIBLE CARE®** **RE-CERTIFICATION:**

In 2012, we successfully completed a Responsible Care® audit of our management systems, which resulted in our re-certification. In addition, our Dangerous Goods Group enhanced our Emergency Response Plan by participating in and delivering emergency response training courses. Through the Transportation Community Awareness and Emergency Response (TRANSCAER®), we help communities understand the movement of hazardous materials and what is required in the event of transportation incidents.

Security

Our comprehensive Security Management Plan provides a structured risk-based approach to managing network security, protecting critical assets and preventing trespassing. Its key components include threat and vulnerability assessments of critical infrastructure, security alerts and countermeasures. The plan enables us to focus resources on protecting critical assets and trespassing.

CN Police Officers in Canada and the U.S. protect customer goods, prevent and investigate crime, and ensure the safety and integrity of our facilities, equipment and property. They are also actively involved in rail safety education initiatives in communities across the network.

We continue to make considerable investments in technology and infrastructure protection to safeguard our people, our assets and customer shipments. Surveillance at all our major yards and terminals is increasingly effective with the addition of technology-based security measures.

Dangerous Goods and Emergency Response

A critical part of any safety plan is knowing what to do when things go wrong. Our Emergency Response Plan (ERP) ensures that there is an immediate, coordinated response to deal with incidents quickly, safely and effectively. Every year, our Dangerous Goods group takes steps to enhance the company's emergency preparedness and system protection with a strong focus on safety, regulatory compliance and effective emergency response.

391,098



efficiency tests and observations of operational activities conducted in 2012

SAFETY CULTURE: FURTHER STRENGTHENING OUR SAFETY PRACTICES



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 remain in compliance with the revised Canadian and U.S. regulatory 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 materials and respond to an incident.

ABOVE:
Ryan Yeadon
Carman
Port of Halifax, Nova Scotia



➤ **INVOLVING EMPLOYEES IN SAFETY:** We make significant investments in training, coaching, recognition and employee involvement. Peer-to-peer communications encourage our employees to communicate continuously with each other as they perform tasks. On-the-job training and CN Campus provides our new railroaders with effective real-world training while our SaFE programs and Safety Summits educate new hires on CN's safety culture and practices.

People

People are at the heart of safety at CN. We work hard to create a safe environment for our employees, but our accomplishments are made possible in large part by their commitment to doing their jobs safely and to the collective dialogue that continuously generates ideas for improvements, ideas that we turn into action. As we welcome a new generation of railroaders to CN, it is of the utmost importance that they have the training not only to embrace our safety culture, but to build upon the legacy.

Safety Culture

We continue to measure and strengthen our safety culture in accordance with Transport Canada's guidelines. We continue to be the only railroad in North America to measure safety culture on an ongoing basis. Since 2010, we have been measuring our safety culture performance through employee perception surveys and through risk assessments. To date, we have conducted 17 local safety culture perception surveys and are now focused on areas of continuous improvement. In 2013, we are strengthening the integrated audit process to further improve the assessment of our safety culture.

Training and Coaching

We provide extensive training, coaching, recognition and employee involvement initiatives in order to reinforce our safety culture. We are taking a systematic approach to developing and training the many new railroaders

we hire every year. We are investing significantly to provide them with modern curricula and real-world experience as part of a revitalized company-wide training program aimed at preparing railroaders to be highly skilled, safety conscious and confident in their work environment. The new approach, called CN Campus, will be anchored by two state-of-the-art training centres in Winnipeg, Manitoba, and Homewood, Illinois.

Employee Involvement

Employee involvement is a fundamental part of CN's Safety Management System (SMS) and is strengthened through SaFE programs, safety summits and peer-to-peer communication. As an added safety measure, peer-to-peer communications ensures that employees communicate continuously with each other as they perform tasks. Employees also have access to a confidential near-miss hotline at various locations and confidential Hot Boards at other locations to register hazards, concerns or incidents. Having a continuous, collective dialogue with our employees about what's working well and what is not is one of our top safety priorities.

All our labour union agreements include health and safety clauses through references to the applicable laws and regulations. Approximately 13% address specific health and safety topics such as personal protective equipment and joint management health and safety committees.



"The safety improvements achieved in 2012 clearly tell us we are headed in the right direction. We are encouraged to see our employees so engaged in developing our safety culture. As we welcome thousands of new hires, the continued strengthening of our safety culture will be of the utmost importance."

SAM BERRADA
General Manager, Safety and Regulatory

67



Safety Summits led by local management in 2012 promoting effective two-way communications and the sharing of best safety practices



ABOVE:
Colette Lebel
Conductor
Joffre, Quebec

HONOURING OUTSTANDING ACHIEVEMENTS



The Champion Safety Awards have been designed to recognize divisions or functions with the lowest and most improved Federal Railroad Administration (FRA) injury and accident ratios and Transport Safety Board of Canada (TSB) accident ratios.

In 2012, the Champion Safety Awards went to the following Divisions:

- **Northern Ontario Division:** Lowest FRA injury ratio, lowest FRA train accident ratio, lowest and most improved TSB train accident ratio
- **Alberta South Division:** Most improved FRA injury ratio and largest reduction in FRA injuries
- **Detroit Division:** Most improved FRA train accident ratio
- **Lake Division:** Largest reduction in FRA accidents
- **British Columbia North Division:** Largest reduction in TSB accidents





➤ **CUSTOMERS:** The revised *Customer Safety Handbook* provides guidelines and best practices for safe railroad operations. Working in partnership to improve safety enhances our customer operations as well as CN's.



➤ **FOCUSED ON REAL ISSUES:** The Humboldt Saskatchewan Health and Safety Committee constantly looks for ways to make CN's operations safer and always acts quickly when an employee raises an issue. The result: five years without a reportable injury in the team of 50 employees.

Health and Safety Committees

Our joint union-management Health and Safety Committee includes our COO, regional SVPs, functional VPs as well as senior representatives from each of our unions. Local committees help us to identify leading causes of injuries and accidents and implement solutions locally.

In 2012, we continued to deliver systematic support to our Health and Safety Committees, including training, teaching risk assessments and providing assistance in developing annual action plans to address top causes of accidents and injuries.

Engaging Customers

We work closely with our customers to share best practices in conducting safe railroad operations so that they can safeguard themselves, CN employees and surrounding communities. We use our Railroad Customer Safety Handbook to raise awareness of key safety issues and the many ways customers can enhance the safety of their operations.

Technology and Investment

We are committed to investing in infrastructure and technology to enhance safety and to improve reliability for our customers. We focus on rail flaw detection; the position, curvature and alignment of the track and the use of vehicle track interaction units to identify potential track defects. We also employ a vast network of detectors to spot hot bearings and wheels, dragging equipment, excessive wheel impact loads and to monitor wheel profiles to prevent mechanical issues from causing accidents.

In 2012, we continued to maintain one of the highest capital investment ratio in the industry for Class I railroads. We invested approximately \$1.8 billion in capital programs, of which more than \$1 billion was dedicated to track infrastructure and other initiatives to operate a safe railroad and to improve the productivity and fluidity of our network. In 2013, we plan to invest approximately \$2 billion in capital programs, of which over \$1.1 billion will be spent on track infrastructure.

106



formal joint union-management health and safety committees in 2012

Safety Performance

We track our safety performance closely. We set aggressive safety targets and analyze how we are progressing toward these goals. We also develop detailed action plans to address the root causes of all our accidents. In 2012, our safety performance improved markedly on the three key safety metrics: the Federal Railroad Administration (FRA) personal injury ratio and accident ratio and the Transportation Safety Board (TSB) accident ratio.

In 2013, we will continue to focus on safety culture by developing cutting-edge training programs and through initiatives such as SaFE programs, peer-to-peer communication, safety summits and cause-finding analysis. We will also implement the recommendations of multi-functional Safety Task Forces to reduce accidents and injuries.



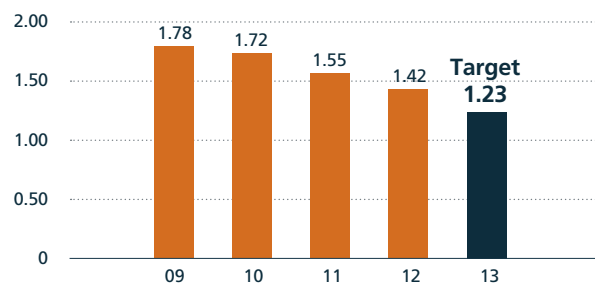
➤ **INJURY FREE FOR 41 YEARS:** Moncton, New Brunswick employee Patrick Warren's unwavering personal commitment to simply being careful and willingness to share knowledge mirrors our corporate focus on safety.

15%

 improvement

FRA Personal Injury Ratio

Injuries per 200,000 person hours



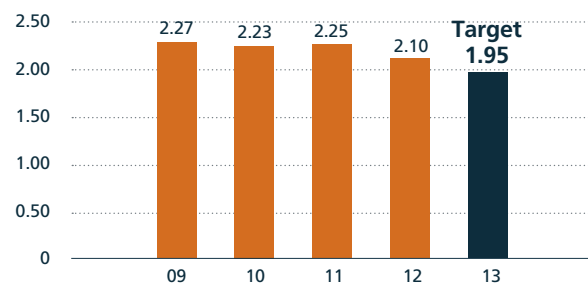
Our FRA injury ratio improved 15% in 2012 from 2011. FRA injury ratios have improved 80% over the past 10 years. The improvements are a result of our commitment to address the most common causes of injury and strengthen our safety culture.

7%

 improvement

FRA Train Accident Ratio

Accidents per million train miles



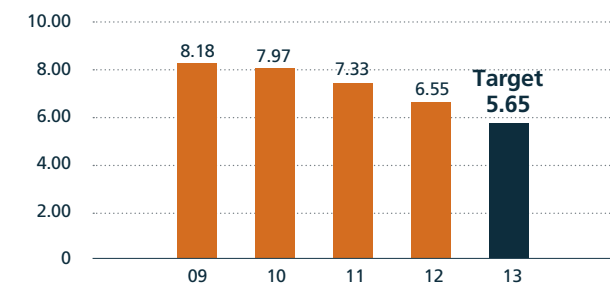
Our FRA accident ratio improved 7% in 2012 from 2011. The improvements are a result of the use of heat mapping to pinpoint accident causation and the focus of our safety task forces on human factors that led to accidents.

11%

 improvement

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.

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.

FROM LEFT:

Peter Norberg
Mechanical Supervisor

Erik Olson
Mechanical Supervisor

Jacob Dudoward-Sterritt
Car Mechanic Apprentice
(hired through CN's Ambassador program)
Prince Rupert, British Columbia

people

Developing the Best Railroaders

Our ability to develop the best railroaders in the industry has been a key contributor of our success. What differentiates us from our competition is not the colour of our locomotives or our tracks, but rather our people. It is our 23,000 proud railroaders who sustain our leading position.



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



TALENT MANAGEMENT STRATEGY

People are the foundation on which all our guiding principles are built. Talent management at CN is focused on attracting the right people, bringing new hires onboard properly, strengthening connections and developing the best railroaders with the right skills. Engaging employees in our ongoing transformation journey is at the heart of our strategy.

Our Approach

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.

To continue to be a leader in the North American transportation industry, we must attract the right people, at the right place and at the right time. No matter how good our service plan or business model, we will not be able to fully execute without attracting, retaining and developing a talented and diverse workforce.

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. At the same time, we must make sure that people know what is expected of them and have the tools and training to do their jobs well and be fully productive.

Our Human Resources Department plays an integral role in executing our strategy through recruitment, onboarding, training and development. Our recruitment strategy is overseen by our Talent Acquisition Team, supported by the Ambassador program and our Diversity Leadership Council.

Our people development strategy is overseen by the Training Excellence Committee.

Progress on our strategies is communicated regularly to the Executive Leadership Team, who in turn report to the Human Resources and Compensation Committee of the Board of Directors on a quarterly and annual basis.

The results are used to continuously improve our ability to attract top talent, onboard new hires, connect employees and develop the best railroaders.

2,398

new hires in 2012, resulting from our targeted recruitment campaigns and the CN Ambassador program





PROMOTING OPPORTUNITIES FOR WOMEN: The CN Society of Women in Engineering launched ASPIRE, an outreach program that provides school girls with an opportunity to learn about careers at CN. The ASPIRE team received CN's 2012 President's Award for Excellence for their initiative.



Attracting Top Talent

To hire in advance of attrition and to stay ahead of changing demographics, members of our Finance, Operations, Marketing and Human Resources Departments work together to develop a workforce planning model to forecast our employment needs. Based on this forecast, we have refined our approach to educating candidates about our jobs, our business and what we stand for. 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.

Recruitment Campaign

To support our goal to be a top-of-mind employer, we continue to develop targeted recruitment campaigns and to host extensive CN-exclusive job fairs, offering candidates in even the most remote locations the chance to learn about our career opportunities and to get on-the-spot interviews. Potential employees can sometimes also meet with CN employees to discuss day-to-day work experience at CN.

We have developed a broad presence in social media that allows us to target the most appropriate audience when promoting jobs at CN. In 2012, we launched the CN Ambassador program to have our experienced railroaders reach out to the next generation of talented professionals about career opportunities at CN.

Our multi-channel recruitment strategy also includes leveraging local employment partners and reaching out to over 240 groups and associations.

RECRUITING VETERANS AND RETIREES:

We have engaged with the Canadian Senate Sub-Committee on Veteran Affairs and the 'Joining Forces' White House Initiative in the U.S. to increase opportunities for veterans and employers and expanded our own outreach efforts to hire more veterans. We also provide opportunities for retirees through our Weekend Worker program that places highly skilled individuals back in the workforce to assist with the learning curve of new employees.

Diversity

A more diverse workplace makes us an even better place to work. We can produce better business outcomes by tapping into a breadth of talents and perspectives to improve service, efficiency and the bottom line.

The Diversity Leadership Council (DLC) is responsible for enhancing diversity and CN's cultural competence. The DLC, in collaboration with the Human Resources Department, oversees efforts to partner with various associations, sponsorships, community outreach programs and internal initiatives to promote workplace diversity.

We extend our philosophy on diversity to all facets of our business, including our supplier base through our Request for Proposal process and sponsorships. We also actively participate in the Canadian Aboriginal and Minority Supplier Council (CAMSC), which includes one-on-one meetings with diverse potential vendors.

Compensation and Benefits

As new hires join CN, it is important that they understand the true value of our offering. Our compensation package for full-time employees can consist of several components including: base salary, employee savings, share ownership, flexible benefits, pension plans, annual bonus plan, stock-based incentives, benefit care options, flexible working schemes and employee discounts on a wide variety of products and services.

241



groups and associations reached in 2012, including visible minorities, persons with disabilities, aboriginals and women

Onboarding at CN

Our unique Onboarding program prepares new employees across our network for their railroading career. Over the first 18 to 24 months of their 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.

Ongoing Support

The Onboarding program is supported by 14 Onboarding Champions who provide leadership within their functions and coach managers to take ownership and accountability for new employees. They meet new employees frequently to ensure the new hires are getting the support they need to learn about their jobs and CN.

Training and Learning Opportunities

Our Onboarding program ensures that new hires receive the relevant training and learning opportunities over the course of their first 18 to 24 months with us for some positions. This includes a seven-month program that trains new hires through a blend of classroom and hands-on training on the job. The training and learning programs are designed to help new employees develop solid railroad knowledge and leadership skills, while learning how to work safely and efficiently.

New Hire Feedback

Our Onboarding program is successful when new hires understand what is expected of them, feel that they have all the necessary tools to do their job, and are connecting with other railroaders to learn about the business. When they have the broader view that allows them to understand how their role fits into the big picture, they can be better contributors and change agents. In 2012, our Onboarding survey revealed that the majority of our new hires (92%) are proud to work at CN.

92%

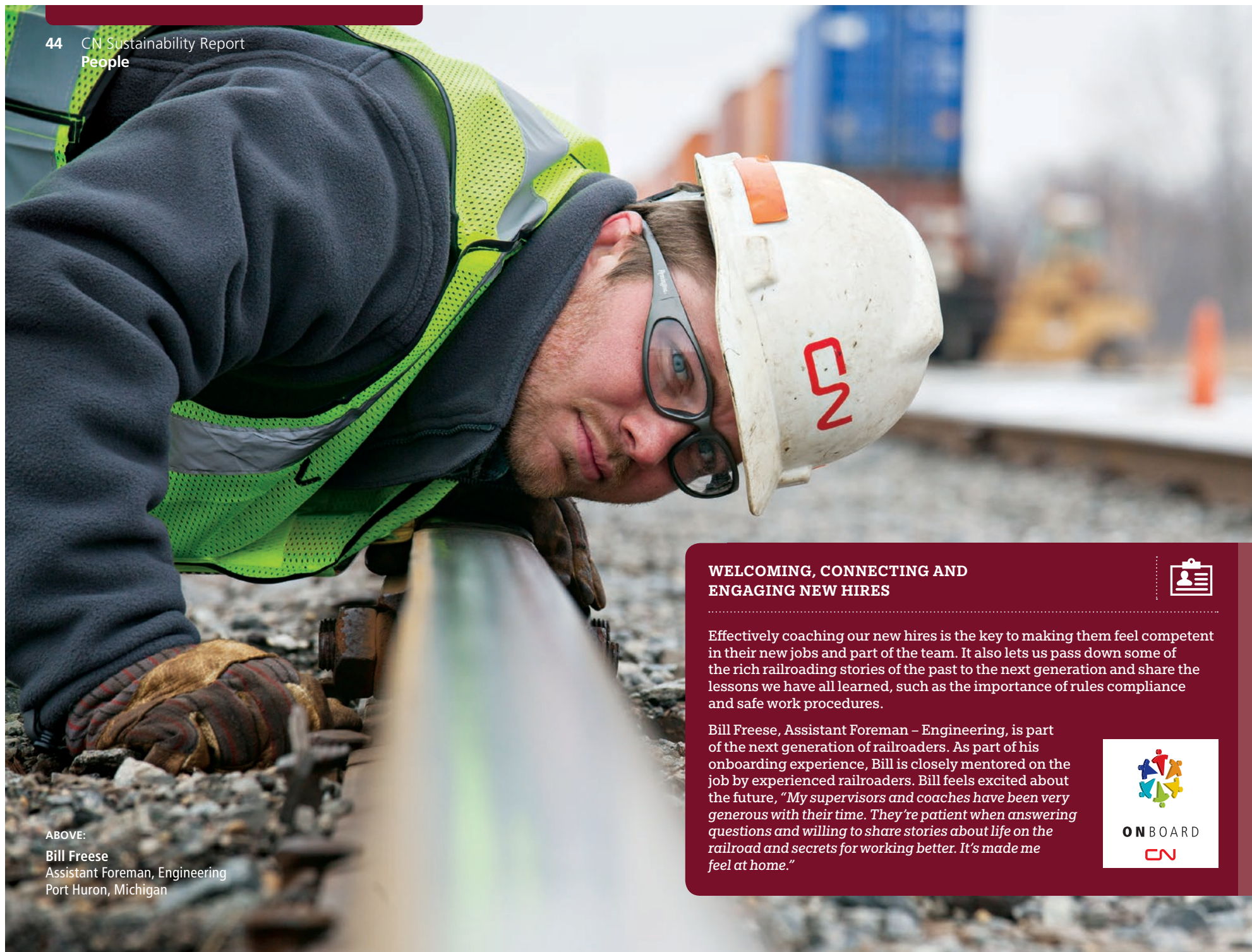
of our new hires are proud to work at CN based on the 2012 results of our Onboarding survey



➤ **CLASSROOM TRAINING:** We have two key seven-month programs to train newly hired first-line supervisors and recent appointees to first-line supervision. Both programs are a blend of classroom and hands-on on-the-job training. The programs' goals are to develop solid railroad knowledge and leadership skills in the participants.



➤ **FUTURE LEADER TRAINING PROGRAM:** The Future Leader Trainmaster program develops newly hired assistant trainmasters and conductors promoted to assistant trainmaster positions. The Future Leader Assistant Track Supervisor (ATS) program trains new hires and internally promoted employees in the engineering functions.



ABOVE:

Bill Freese
Assistant Foreman, Engineering
Port Huron, Michigan

WELCOMING, CONNECTING AND ENGAGING NEW HIRES



Effectively coaching our new hires is the key to making them feel competent in their new jobs and part of the team. It also lets us pass down some of the rich railroading stories of the past to the next generation and share the lessons we have all learned, such as the importance of rules compliance and safe work procedures.

Bill Freese, Assistant Foreman – Engineering, is part of the next generation of railroaders. As part of his onboarding experience, Bill is closely mentored on the job by experienced railroaders. Bill feels excited about the future, “My supervisors and coaches have been very generous with their time. They’re patient when answering questions and willing to share stories about life on the railroad and secrets for working better. It’s made me feel at home.”



ONBOARD
CN

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 through training excellence and developing talent for growth.

Training and Skills Management

Training is critical to having a skilled and engaged workforce. Replenishing our aging workforce and planning for the development needs of both new and existing employees remains an ongoing priority. We are focusing our efforts on teaching our railroaders what they need to do their jobs and to carry out their responsibilities safely and efficiently. We also provide transitional assistance programs to support employees who are retiring.

As we strengthen our approach to skills development, we are committed to keeping our training programs current and relevant. Our Training Excellence Committee works on multiple fronts to address demographic changes impacting our workforce, including upgrades to our facilities, instructors, curriculums and our learning management system.

In 2012, we enhanced our management training as well as job-specific development programs related to safety, technical, management and computer skills while strengthening transportation education through the Railroad Certification programs and the Future Leader programs for Trainmasters and Assistant Track Supervisors.

We also revitalized company-wide training programs on technical training and leadership development. This initiative, called CN Campus, is anchored by two modern training centres being built in Winnipeg, Manitoba, and in Homewood, Illinois. Our \$55 million investment in these state-of-the-art facilities will revitalize and modernize the way we teach, provide a consistent level of training across our network and bring our people together.

Developing High Potential Talent

As part of our strategy to develop talent, we launched a masters program called LINK to increase the business knowledge and expertise of strong performers who are in the early stages of their careers. We also established the LEAD program, a broader two to three year leadership development program to teach supervisors to better lead, develop and coach their team members.



LOCOMOTIVE SIMULATORS – A VALUABLE TOOL IN LOCOMOTIVE ENGINEERING TRAINING: To train locomotive engineers, CN has eight locomotive simulators that provide computer-based simulation of train driving and rail transport operations. Locomotive simulators will be among the key equipment featured at CN's state-of-the-art training centres.



"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

\$55M

investment in training, anchored by two new facilities in Winnipeg, Manitoba, and Homewood, Illinois, is revitalizing and modernizing the way we teach





CN CAMPUS ELEVATING OUR RAILROADER TRAINING PROGRAM



In September 2012, CN broke ground on the Winnipeg campus during a ceremony attended by CN employees, labour leaders, Manitoba Premier Greg Selinger, Transcona Member of Parliament Lawrence Toet, Winnipeg Mayor Sam Katz and other provincial and local officials. The training facility is located in the suburb of Transcona, home of CN's main Canadian heavy repair shops. We plan to build a similar training centre adjacent to our Woodcrest Mechanical Shop in Homewood, Illinois.

Both current employees and the thousands of new railroaders that CN plans to hire over the next few years will receive state-of-the-art training at these new facilities.



FROM LEFT:

Lawrence Toet, Member of Parliament
Sam Katz, Mayor of Winnipeg
Kimberly A. Madigan, CN's VP of Human Resources
Greg Selinger, Premier of Manitoba
John Orr, CN's VP Safety and Sustainability (2012)
Winnipeg, Manitoba

Performance Management and Rewards

Our Employee Performance Scorecard (EPS) is a tool to align employee performance objectives with our business plan. Since 2006, our EPS program has included unionized employees, a first for Class I railroads in North America.

The EPS process builds meaningful connections and engagement between employees, supervisors and the business. It enables us to recognize individual contributions, show employees the impact of their actions on the business and support career advancement.

Environmental and social performance objectives are included for some management employees, along with leadership competency. For unionized employees, performance objectives relate to our five guiding principles.

In 2012, the EPS process for union and management employees was adjusted to promote development discussions between managers and their employees and reflect the importance of leadership. All management employees who have employees reporting directly to them included a people component in their performance objectives related to growing talent, onboarding new hires, increasing employee engagement, and fostering strong relationships with employees and unions.

Recognition Programs

The principle of recognizing our best railroaders is supported by rewarding employees who contribute to our success. We do this through our President's Awards for Excellence, which recognize outstanding achievements in several categories, including safety and sustainability.

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.

Collective Agreements

We work collaboratively with our union partners through collective agreements that adapt to changing needs. We have over 35 agreements in Canada and more than 60 in the U.S. that include provisions for negotiations, material or operational changes (with a minimum notice period of approximately four months), dispute resolution, training and other issues related to quality of work life.

In 2012, more than 30 collective bargaining agreements were renewed covering approximately 4,600 track maintenance employees, locomotive engineers and rail traffic controllers in Canada and in the U.S.

Communication Tools

We have tools and initiatives to help employees stay connected with CN and their fellow railroaders, including our CEO's *"Note from Claude,"* the *CN People* company magazine, and an e-newsletter highlighting employee stories and achievements. The CN ePortal and email help us to communicate with the thousands of railroaders working across our network.



➤ **PRESIDENT'S AWARDS FOR EXCELLENCE:** The 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.

100%



of our employees receive regular performance and career development reviews

95



collective agreements: 35 in Canada and more than 60 in the U.S.



➤ **EMPOWERING EMPLOYEES TO MAKE BETTER DECISIONS:** In 2012, we provided a series of health fairs and information sessions on nutrition and shift work to all mechanical employees.



➤ **FAMILY DAY EVENTS:** With a 24/7 365 days-a-year operation, we couldn't function without family support. Our Family Days are a way of recognizing that and giving our families an opportunity to better understand what we do. These events are terrific for morale; our employees feel tremendous pride in their work and pleasure at being able to show friends and family what they do.

Support Networks

We recognize that an employee's personal challenges may compromise job performance, attendance, health and the safety of the employee, other employees and the general public. The Employee and Family Assistance Program (EFAP) is an avenue that employees can use to seek help in Canada. It is overseen by the EFAP Senior Advisory Committee whose mandate is to ensure that we have a strong program to support our employees and their families in Canada. A special component of the EFAP is the Peer network. The network consists of approximately 350 unionized and management employees who have volunteered their time to support co-workers. These Peers are on call to meet and to support employees involved in a critical incident.

Employee Idea Management

How and what we communicate with our employees is largely shaped by the feedback and ideas shared with us through annual company-wide surveys. This feedback gives us a pulse on the issues that impact our people. Employees also share ideas through our Safety Management System, the EcoConnexions program and our mechanical and engineering systems on improvements to service and reliability.

Work Life Balance, Health, and Wellness

The health and wellness of our employees is important to us. We believe a healthy workforce is a productive workforce. Our Human Resources Department oversees our health and wellness programs, such as stress management, healthy lifestyles and nutrition, workplace fatigue and substance abuse. We disseminate information through our *CN People* magazine to communicate available resources, and empower employees to make better decisions. Recognizing the importance of family and its role in career decision-making, we support fun, family-friendly events throughout the year for employees and their families.

Human Rights

Our commitment to support and respect human rights is reflected in our Code of Business Conduct and other corporate policies. These policies are located on our ePortal, and communicated through Our Obligations – Maintaining Employment Equity and Diversity training. Training is provided to management employees, including CN Police who manage staff. In 2012, 92% of supervisory employees representing approximately 1,800 employees completed the training.

To further strengthen our commitment, all of our collective agreements now include human rights and / or employment equity language, with the exception of the Northern Quebec Territory (NQT) Agreement.

Communication Mechanisms

We are dedicated to cultivating an open and respectful work environment. This commitment is embodied in our Code of Business Conduct, which requires our supervisors to foster a workplace culture that ensures employees feel comfortable – and know they are being heard – when raising an issue or voicing a concern.

Our ground-breaking Grievance Tracking System, unique in the industry, enables real-time tracking of issues and accelerates resolution. The goal of the system is to improve the manner in which grievances are handled and foster better company-union relationships.

Performance

We track performance against our attraction and retention goals and ability to successfully onboard new hires through our Ambassador program. In 2012, we made significant progress. We welcomed and engaged approximately 2,400 new hires through our Onboarding program. We encouraged more employee involvement and feedback and increased the reach of corporate messages to ensure a common understanding of our culture. Since 2009, we have almost doubled the total hours of training and increased the average training hours per employee by approximately 80%.

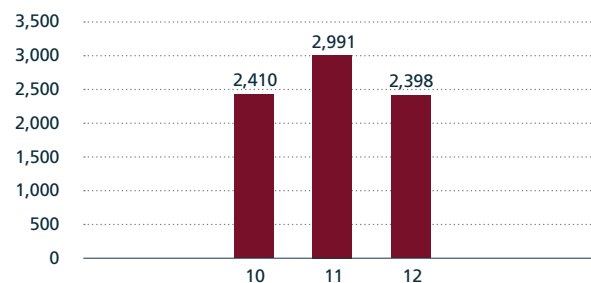
Over the coming years, we will continue to focus our efforts on deepening our employee engagement, onboarding our new hires and developing our people through the Training Excellence program.



➤ **REFINED ON-THE-JOB TRAINING:** Focused on new hires in transportation, CN developed standardized trip checklists to better capture a trainee's progress and help trainers to respond to individual learning needs.

7,799 new hires since 2010

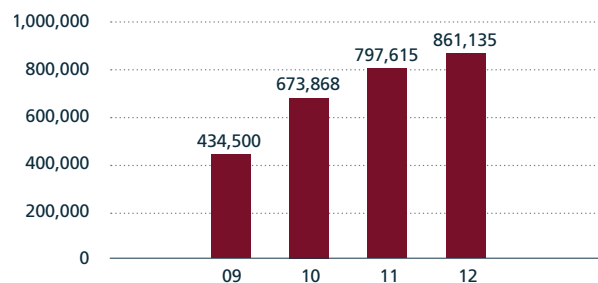
Number of New Hires



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

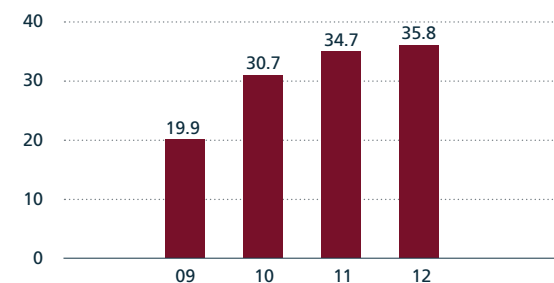
Total Hours of Training



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.

80% increase

Average Hours of Training per Employee



We increased the average hours of training per employee by approximately 80% since 2009. It reflects our commitment to developing the best railroaders.

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.

ABOVE:
Sean Moran, CN Railroader
in the Community coaching kids
in Beecher, Illinois to foster
teamwork and a love of sports.

community

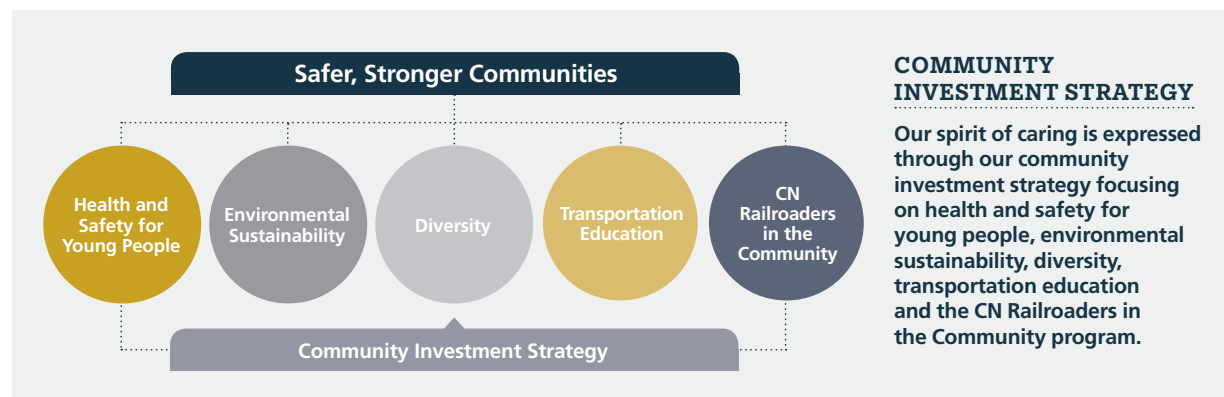
Making a Difference

As an engaged corporate citizen, we are committed to working with communities on opportunities consistent with our expertise, business strengths and resources. Our goal is to share our knowledge and expertise and leave our communities and economies better for our being there.



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



Our Approach

Building safer, stronger communities creates social and economic progress and makes the communities where we operate better places to live and work. It enhances our corporate reputation, reinforces our values and attracts and retains employees.

To guide our community investment efforts, we established a CN Sponsorship and Donations Framework to define our policy and strategic focus areas. At the heart of our strategy is the Stronger Communities Fund.

The Public and Government Affairs Department is responsible for ensuring that we select worthy causes, organizations, projects and events that meet our core values and align with What CN Stands For, business strengths and expertise. This way we can share our knowledge and experience to really make a difference.

The Sponsorship and Donations Committee of the Board meets three times a year to review the effectiveness of, and to consider, key sponsorship and donation requests.

Our community investment strategy focuses on these key areas: 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

We believe that the best way to build stronger communities is to actively contribute to organizations, programs and initiatives that promote the health and safety of our youth.

Safeguarding Health

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 and to save children's lives.

All Aboard for Safety Program

The All Aboard for Safety program is our flagship community education program to help prevent fatalities and injuries on or near railroad property. We conduct mock train-vehicle collisions, promote safety to children using our safety train Obie and his website, and host safety blitzes and Safe Crossing weeks.

These events engage CN Police and our employees, and involve partnerships with like-minded community groups such as Operation Lifesaver, SafeKids Canada, Safe Communities Canada, Safe Communities America, SMARTRISK and Mothers Against Drunk Driving (MADD).

CN POLICE MARK RAIL SAFETY WEEK PROGRAM

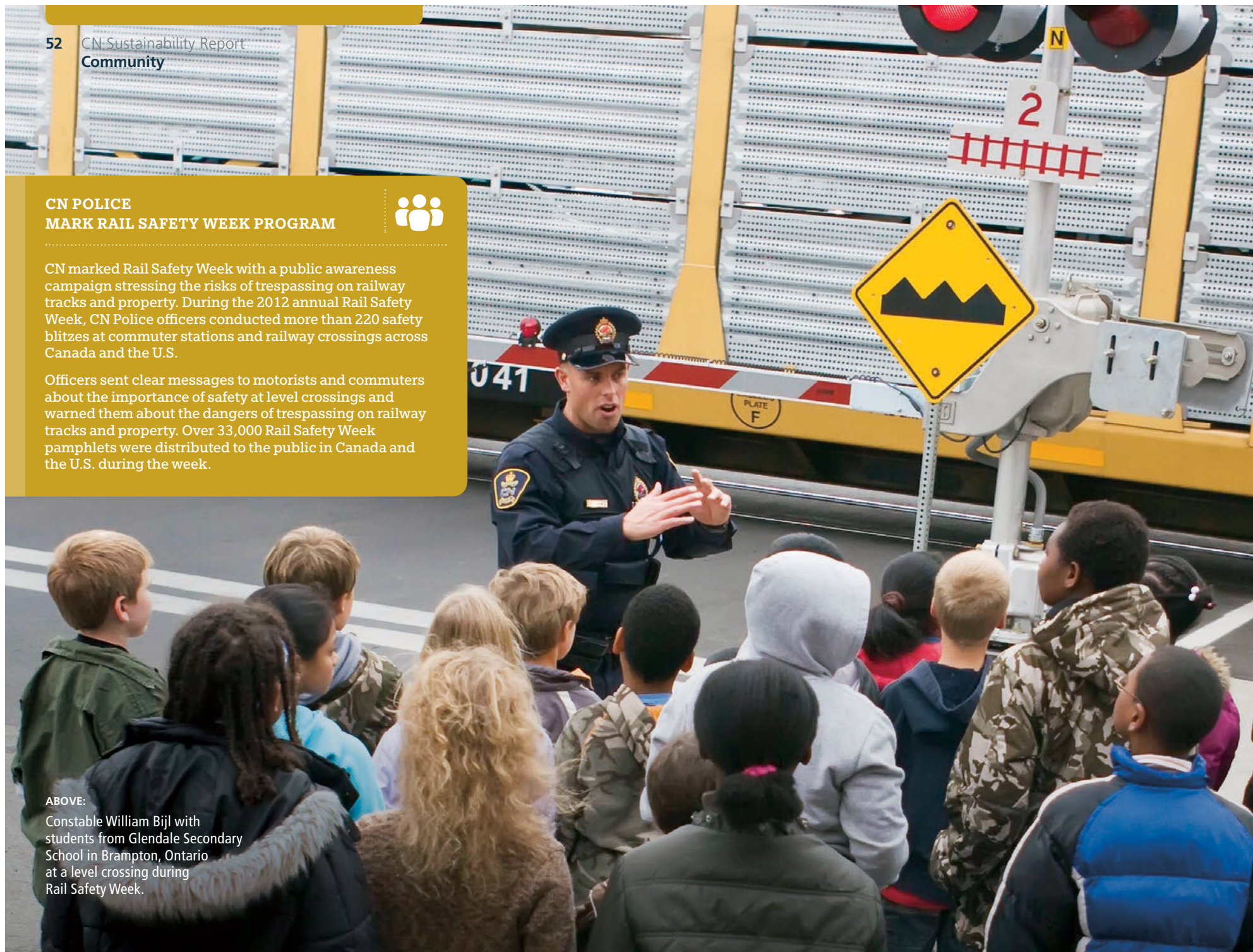


CN marked Rail Safety Week with a public awareness campaign stressing the risks of trespassing on railway tracks and property. During the 2012 annual Rail Safety Week, CN Police officers conducted more than 220 safety blitzes at commuter stations and railway crossings across Canada and the U.S.

Officers sent clear messages to motorists and commuters about the importance of safety at level crossings and warned them about the dangers of trespassing on railway tracks and property. Over 33,000 Rail Safety Week pamphlets were distributed to the public in Canada and the U.S. during the week.

ABOVE:

Constable William Bijl with students from Glendale Secondary School in Brampton, Ontario at a level crossing during Rail Safety Week.



Environmental Sustainability

We invest in initiatives that protect the natural environment. In line with our environmental sustainability strategy. We support organizations that are actively engaged in protecting the natural 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 environmental objectives, including Ducks Unlimited Canada, Trans Canada Trail, Calgary Greenway, Royal Botanical Gardens, Tree Canada and Communities in Bloom.

Diversity

Creating a workplace that reflects the diversity of the wider world in which we operate just makes good business sense. It is 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 women, 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 sustainable 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.

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. In addition to the Employee Volunteer Grant, the program includes a CN Family Volunteer Grant, Matched Fundraising Grant, Youth Amateur Sports Volunteer Grant and a Retired Employee Volunteer Grant.



➤ **SUPPORTING CHILDREN'S HOSPITALS:** CN President and CEO Claude Mongeau celebrates the CN Miracle Match donation to the Montreal Children's Hospital Foundation and the Fondation CHU Sainte-Justine. The Foundations were the official beneficiaries of the 2011 Miracle Match campaign; a national charitable initiative where we match donations. We raised \$2.1 million in 2011 and \$1.8 million in 2012. Miracle Match helped raise close to \$8.3 million between 2006 and 2012 for local children's hospital foundations across Canada.



"Expanding our focus to include environmental sustainability and diversity builds on our spirit of caring within the communities where we operate."

KAREN BORLAUG PHILLIPS
 Vice-President,
 Public and Government Affairs

\$19M

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



27,840

employee volunteering hours in 2012 during personal time to build stronger communities





PARTNERING FOR SUCCESS ECOCONNECTIONS – FROM THE GROUND UP



From the Ground Up program, 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.

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 enhancement initiatives in a sustainable, environmentally responsible manner. Since its inception, we have planted more than 2,100 trees and shrubs.

In 2013, CN will complete eight mass tree reforestation programs in partnership with Tree Canada and Arbor Day, five in Canada and three in the U.S.



ABOVE:
CN Constable Mike Stewart lends a helping hand to members of the Canim Lake, British Columbia community during a From the Ground Up tree-planting event.

Engaging with Communities

Through our network and operations, we touch people living in hundreds of communities across North America. We believe it is important to manage our impact on and relationships with local communities and the governments that serve them. Our goal is to leave these communities and economies better for our being there.

Our community networking strategy is designed to proactively establish good relationships with the communities where we operate. Engagement within communities takes a variety of forms, including formal environmental and social impact assessments, community group meetings and one-on-one discussions. We also work closely with federal, provincial, state and municipal associations on matters relating to proximity and safety concerns.

For example, as part of the Elgin, Joliet and Eastern Railway Company (EJ&E) acquisition, we engaged with the 33 communities along the arc of EJ&E. By the end of 2012, we had reached Voluntary Mitigation Agreements with 27 of those communities.

In order to establish priorities and track our progress with targeted communities across North America, our Public and Government Affairs and Dangerous Goods teams maintain a community networking plan. Performance against the plan is reported to the Executive Leadership Team and Board of Directors.

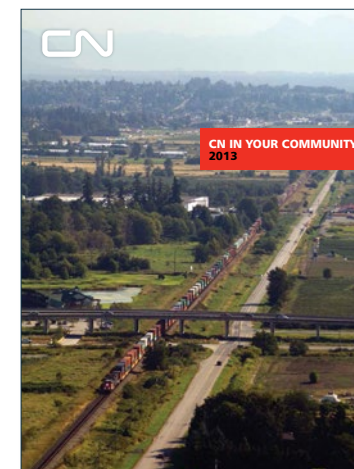
Communication Mechanisms

We have various mechanisms that stakeholders can use to raise concerns confidentially and anonymously. In addition to the communications lines set out in our Business Code of Conduct, we also provide a Public Inquiry Line – a toll-free number published in community phone books across North America and listed on our website. It provides a central contact for the public with questions, comments or concerns about any aspect of our business and operations.

The Public Inquiry Line is staffed by CN employees. If they cannot answer a question or concern an email is sent to the appropriate department(s). The departmental contact will respond directly to the caller or provide information to the Public Inquiry Line for a response.

Our local Public and Government Affairs Managers have received comprehensive training to respond to concerns or requests from the public. The training includes methods of engagement, capacity building and communications. Depending on the nature of the issue, we ensure stakeholders are informed about our remediation process through collaboration and consensus.

A central database is used to track calls, which allows us to identify trends and track progress on addressing and resolving concerns. We provide an annual report to the public on the questions and concerns received by our Public Inquiry Lines and action taken to resolve community issues.



➤ **CN – PART OF YOUR COMMUNITY:**

The CN in Your Community Report gives you an idea of how we manage communications with external audiences, track concerns raised by our neighbours and find mutually acceptable solutions. We value the communities we operate in and maintaining productive relationships with them is an important priority for CN.



“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

100%



of locations identified through our community network strategy across Canada and the U.S. that had active community engagement plans

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.

FROM LEFT:

Gabrielle Ricchetti

Officer, Corporate Sponsorships

Mathieu Bergeron, Counsel

Nuria Pérez de León

Manager, Corporate Communications

Mathieu Lamothe, Counsel

CN Head Office, Montreal, Quebec

governance

Committed to Good Governance

Our commitment to good governance is reflected by our focus on continuously improving Board policies and practices and on strengthening our culture of integrity and ethical business conduct. We have adopted numerous leading governance structures and process innovations as we strive to be among North America's leaders in corporate governance.



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



Our Approach

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

The Board and its Committees

The Board is the decision-making body for all matters deemed material to the strategic and financial functioning of the company. It is made up of a non-executive and independent Chairman, the President and Chief Executive Officer and 11 non-executive independent Directors. At the end of 2012, we had two women on our Board.

The Board supervises the management of our business affairs with the objective of increasing shareholder value. The Environment, Safety and Security (ESS) Committee of the Board has direct responsibility for overseeing the implementation of our sustainability practices and performance. The ESS Committee also reviews our business plan to ascertain whether sustainability issues are adequately considered. Where necessary, the ESS Committee may delegate additional sustainability responsibilities to the CN Leadership Team based on our performance over the year.

CN Leadership Team

Responsibility for the day-to-day leadership and management of our business is assigned to the President and Chief Executive Officer (CEO). Reporting directly to the CEO are key executives who provide guidance on strategic priorities.

The Vice-President Safety and Sustainability and the Assistant Vice-President Environment and Sustainability have formal responsibility for sustainability. The Vice-President Safety and Sustainability reports to the Chief Operating Officer and communicates with the CEO regularly on strategic sustainability and environmental initiatives. Together, they report quarterly to the ESS Committee of the Board.

Cross-Functional Sustainability Committee

The cross-functional Sustainability Committee meets quarterly to define and align sustainability priorities with our business strategy. The Assistant Vice-President Environment and Sustainability chairs the Committee and provides regular updates to the executive leadership. In 2012, representation on the Sustainability Committee was extended to include most departmental functions.

CN RECOGNIZED FOR BEST PRACTICE APPROACH TO EXECUTIVE COMPENSATION IN 2012



In determining the winner of the Canadian Coalition for Good Governance (CCGG) Best Disclosure of Approach to Executive Compensation Gavel award, CCGG looks for these best practices:

- links between corporate strategy and executive compensation;
- links between risk management programs and executive compensation;
- a description of the components of executive compensation and how decisions are made;
- detailed disclosure of the Board's ability to exercise discretion and whether it has done so, employment contracts, severance agreements and limitations on retirement benefits and perquisites;
- "look-back" tables and charts that show the effectiveness of compensation programs;
- management biographies, qualifications and a description of their responsibilities; and
- no undue reliance on the "competitive hard" exemption.

Nomination and Selection Processes

During 2012, our Board was focused on Board renewal as several Directors will retire and new Board members will be nominated in the next few years.

The nomination and selection process for the Board is managed by the Board Chair and the Corporate Governance and Nominating Committee. As part of the process, a competency matrix is developed for each nominee to identify specific expertise and knowledge areas, including environment and safety. The process also takes into consideration the representativeness of each candidate in terms of experience and geographic location as well as his or her qualifications, financial acumen, business judgement, contribution to board dynamics and independence. The information is used to prepare an evergreen list of potential candidates.

Board independence and possible conflicts of interests are assessed, guided by our Corporate Governance Manual policies and mandates, which includes restrictions on cross-board memberships. Prior to nominating a new or existing Director, the Board Chair and the CEO meet with each candidate to discuss potential conflicts of interest and his or her ability to devote sufficient time and energy to the Board. Potential conflicts of interest, whether direct or indirect must be disclosed to the full Board.

Competence and Performance Evaluations

Board members receive reading materials and presentations on a wide variety of topics including safety, environmental and social topics; corporate governance; executive compensation; risk assessments and disclosure as well as updates on our sustainability initiatives.

Under the supervision of the Corporate Governance and Nominating Committee and the Board Chair, the Board annually assesses the performance of its committees, the Board Chair, committee chairs and individual Directors.

Director evaluations comprise self-assessments, peer assessments led by the Board Chair, as well as Board Chair and Committee Chair evaluations. From time to time, the Board conducts assessments using independent advisors. When relevant, the assessments include performance on environmental, social and governance matters.

Remuneration and Incentives

The Director's compensation program is designed to attract and retain the most qualified people to serve on our Board and its committees, taking into account the risks and responsibilities of being an effective Director.

Our executive compensation policy ensures there is a clear link between our long-term strategy, business plan and executive rewards. Executive compensation is reviewed annually and includes assessments from independent compensation consultants on comparator group practices. Compensation recommendations consider median comparator group practices, economic outlook, leadership abilities, retention considerations and succession plans.

A significant proportion of executive incentive remuneration is tied to key corporate objectives, including safety performance.



"Continuing education on sustainability issues and trends hand-in-hand with improvements in our governance policies have strengthened our ability to embed sustainability thinking in our deliberations and every aspect of CN's business plans."

MAUREEN KEMPSTON DARKES

Chair of the Environment, Safety and Security Committee

Risk Management

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.

The Board Audit Committee is responsible for ensuring a process is in place to identify, assess and manage the principle risks of our business. The day-to-day implementation of the risk management process is overseen by the President and CEO executed by the various Vice-Presidents and monitored through the office of the Vice-President and Corporate Comptroller.

Our identification and assessment of risk is based on the Chartered Professional Accountants of Canada's Framework for Board Oversight of Enterprise Risk. The risk assessment covers internal and external trends impacting our business. Our approach covers four broad categories of risk: strategic, operational, reporting and external. When conducting our assessment, we believe it is important to take a precautionary approach when considering the likelihood and severity of possible impacts from environmental and social risks.

The results of the risk assessment are reported to the executive leadership team, and presented to the Audit Committee of the Board on a regular basis. Critical concerns are communicated, risks are confirmed, management plans are determined and progress is discussed.

Business Continuity Management

We constantly take measures to prevent crisis situations from occurring. We have a combination of resources, procedures and programs that enable us to identify and respond to crisis situations. Our Public and Government Affairs Department plays an integral role in engaging in ongoing dialogue with our stakeholders during crisis situations.

Our Emergency Response Plan and Environmental Incident Reporting and Communication Procedures guide us in dealing diligently with an incident. Environmental incidents are handled by internal environmental specialists who have access to a network of material and specialized equipment suppliers and contractors to assist with a response.

Our Business Continuity Management plan enables us to protect against, and recover from, incidents and restore operations in a timely manner while ensuring the health and safety of employees, communities, and the general public.



➤ CONTINUOUS IMPROVEMENT: Business continuity management is part of our day-to-day work, our corporate fabric and culture. Our risk management process enables us to proactively identify and prevent possible crisis situations. Our crisis management programs enable us to effectively respond to emergency situations, and our recovery plans enable us to resume business effectively.



"Ensuring CN has an effective approach to identifying, understanding and managing risks is critical to running a safe and efficient railroad. One of the Board's core responsibilities is ensuring the risk management policies and internal controls that make this happen are in place at CN."

DENIS LOSIER
Chair of the Audit Committee

91%

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



Values, Policies and Codes

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

The UN Global Compact (UNGC) is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. While not a signatory to the UNGC, our approach to delivering responsibly is aligned with these UNGC principles. Please see the GRI index and our website for more information.

Ethics and Integrity

Our Code of Business Conduct (The Code) – available in French and English – communicates our values and principles. 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.

The Code applies to our employees, directors and officers. We expect everyone working on our company's behalf, including consultants, agents, suppliers and business partners, to obey the law and adhere to high ethical standards. To strengthen our approach, we continually assess and prioritize suppliers that could be exposed to environmental, social and governance risks.

Training and Awareness

In 2012, the Code was reviewed, updated and distributed to our employees. In 2012, 98% of our management employees signed off on having read and complied with the new Code.

The Code addresses matters such as conflicts of interest, anti-corruption, health and safety, environment, and human rights. In 2012, we provided Our Obligations training to managers in Canada. The training included a review of our Human Rights Policy, Harassment-Free Environment Policy, Accommodation Guidelines and Employment Equity Policy. We also trained our human resources staff on their roles and responsibilities related to human rights and employment equity legislation, guidelines, and policies.

Reporting Violations

Violations to the CN Code of Conduct are to be reported to the employee's supervisor or Human Resources representative, or to the CN legal department for investigation and/or remedial action. Communication lines are identified in the Code and include lines to the CN Ombudsman, Human Resources centre and the CN Law Department. In addition, CN has a confidential hotline for employees or concerned citizens to report, among other issues, violations to our Code of Conduct. All hotline notifications are investigated and reported to the Audit Committee of the Board.

The CN Ombudsman provides a confidential, objective and informal avenue that offers advice on internal and external practices and facilitates fair and equitable resolutions to concerns of any nature that arise within CN or the community.

Through its Corporate Governance and Nominating Committee, the Board reviews, monitors and oversees the Code. On an annual basis, management reports to the Committee on the implementation of the Code and on any material contraventions by employees.

Communication Mechanisms

We provide grievance mechanisms and remediation processes to address possible impacts of our business related to ethics and integrity, environment, labour, community or human rights. Examples of the various mechanisms we have in place include:

- an Ombudsman who provides impartial advice and guidance to our employees on how to resolve workplace problems and issues;
- a legal assistance helpline that provides support relating to legal issues covered in the Code;
- our human resources group that provides information on human resources related matters;
- the confidential Employee and Family Assistance Program to help employees and their families cope with a broad range of personal problems;
- a hotline that allows employees to report accounting or auditing violations;
- the CN Police reports emergency situations, including environmental emergencies; and
- the CN Public Inquiry Line addresses concerns or questions from the community or broader public.

All issues, concerns or questions are handled promptly and in strict confidence unless disclosure is required by law.

98%



of management employees signed off on having read and complied with the new Code of Business Conduct

CODE OF BUSINESS CONDUCT: DUTY TO REPORT



Our Code of Business Conduct (the Code) covers fundamental principles governing ethical business conduct. It also deals with the responsibilities for overseeing and reporting violations. All employees have an individual responsibility to report in good faith any activity that violates or appears to violate the Code, the law or regulations.

The Office of the CN Ombudsman provides a confidential, objective and informal avenue that offers advice to both internal and external parties and facilitates fair and equitable resolutions to concerns of any nature that arise in the organization or in the community. The CN Ombudsman is independent and reports directly to CN's Board of Directors, through the Corporate Governance and Nominating Committee.

The CN Ombudsman helps individuals to:

- evaluate the situation;
- assess their attempts to resolve the situation;
- be aware of existing CN policies, procedures and available means of problem-solving; and
- explore various options and potential actions.

All requests are handled promptly and in strict confidence unless disclosure is required by law.






For more information, please refer to our Code of Business Conduct and our website at: www.cn.ca/en/delivering-responsibly/governance/code-of-conduct.



ABOVE:

Majorie Manigat
Business Analyst, Human Resources
CN Head Office, Montreal, Quebec

Measuring Performance

Focus	2011 and 2012 Performance	Future Commitments
 Environment Taking action to protect the environment	<ul style="list-style-type: none"> • 84% score on the environmental dimension of DJSI • 14% reduction in rail GHG emissions intensity since 2005 • 16% reduction in waste since 2010 • \$39 million spent on site assessments and remediation in 2011 and 2012 	<ul style="list-style-type: none"> • Reduce rail GHG emissions intensity by 15% by 2015 based on 2005 • Divert more waste from landfills by reducing, reusing and recycling waste • Continue to minimize our impact and protect natural ecosystems
 Safety An unwavering safety culture	<ul style="list-style-type: none"> • 1.31 FRA personal injury ratio, a 15% improvement over 2011 • 2.10 FRA train accident ratio, a 7% improvement over 2011 • 6.55 TSB (Canada) accident ratio, an 11% improvement over 2011 	<ul style="list-style-type: none"> • Continued focus on safety culture • Revitalize our training program, CN Campus • Targeted accidents and injury reductions in 2013: <ul style="list-style-type: none"> – 1.23 FRA personal injury ratio – 1.95 FRA train accident ratio – 5.65 TSB (Canada) accident ratio
 People Developing the best railroaders	<ul style="list-style-type: none"> • 2,400 new hires engaged through Onboarding in 2012 • 80% increase in the average hours of training per employee since 2009 • 241 groups and associations reached to promote diversity at CN 	<ul style="list-style-type: none"> • Continue to deepen employee engagement • Develop our people through the Training Excellence program • Onboard all new hires and promote CN as a great place to work
 Community Making a difference	<ul style="list-style-type: none"> • Fourth on the list of the Best 50 Corporate Citizens in Canada • Expanded community investment to include environment and diversity • Invested \$19 million in community organizations, including CN Railroaders in the Community 	<ul style="list-style-type: none"> • Build upon our environment and diversity initiatives and commitments • Continue to engage communities through our networking and investment strategy
 Governance Committed to good governance	<ul style="list-style-type: none"> • Appointed a new Vice-President Safety and Sustainability • Listed on the DJSI World Index • Recognized for the Best Disclosure of Approach to Executive Compensation by the Canadian Coalition for Good Governance 	<ul style="list-style-type: none"> • Continue to build knowledge and awareness of sustainability issues within the Board • Further embed our philosophy of delivering responsibly

Data Tables

The following data covered in this report applies to CN and its subsidiaries. CN subsidiaries are listed in the 2012 Annual Information Form on page 4.

Data	Measurement	2012	2011	2010	2009	GRI Indicator
ENVIRONMENT						
EMISSIONS^(a)						
Total GHG emissions (scope 1 and 2) ^(b)	Metric tonnes of CO ₂ e	5,243,252	4,994,596	4,804,890	4,425,685	
Total direct GHG emissions (scope 1)	Metric tonnes of CO ₂ e	5,070,123	4,801,561	4,610,623	4,199,242	G4-EN15
Rail locomotives	Metric tonnes of CO ₂ e	4,424,675	4,185,733	4,048,864	3,725,834	G4-EN15
Intermodal trucks	Metric tonnes of CO ₂ e	105,408	105,616	105,069	123,489	G4-EN15
Shipping vessel fleet	Metric tonnes of CO ₂ e	248,621	234,846	207,618	132,503	G4-EN15
On Company Service fleet	Metric tonnes of CO ₂ e	109,874	108,177	96,966	87,743	G4-EN15
Miscellaneous fuel emissions	Metric tonnes of CO ₂ e	336,800	343,011	346,374	356,116	G4-EN15
Indirect GHG Emissions (scope 2) – energy ^(c)	Metric tonnes of CO ₂ e	173,129	193,036	194,267	226,443	G4-EN16
Other indirect GHG Emissions (scope 3) ^(d)	Metric tonnes of CO ₂ e	35,053	32,064	N/A	N/A	G4-EN17
GHG emissions intensity^(e)						
Total GHG emissions (by rail freight revenue)	Metric tonnes of CO ₂ e per thousand dollar of rail freight revenue	0.58	0.61	0.65	0.68	G4-EN18
Total GHG emissions (by employee)	Metric tonnes of CO ₂ e per full time employee	223	216	218	195	G4-EN18
IMPACT OF SERVICE						
Rail emissions intensity ^(f)	Metric tonnes of CO ₂ e per GTM	11.53	11.69	11.87	12.23	–
Truck emission intensity	Metric tonnes of CO ₂ e per 1,000 kilometres travelled	1.32	1.26	1.25	1.26	–
Shipping vessel fuel efficiency intensity	Gallons of fuel consumed per 1,000 net ton miles	1.86	1.78	1.72	1.61	–
ENERGY						
Total direct and indirect energy consumed within the organization ^(g)	Megawatt hours	18,791,675	17,834,712	17,074,095	15,656,508	
Total direct energy consumed	Megawatt hours	18,327,771	17,342,102	16,649,602	15,178,585	G4-EN3
Diesel (used for locomotives)	Megawatt hours	15,653,901	14,808,557	14,324,330	13,181,495	G4-EN3
Diesel (used for other modes of transport)	Megawatt hours	1,943,339	1,884,709	1,558,164	1,156,618	G4-EN3
Natural gas	Megawatt hours	492,136	387,424	449,056	533,150	G4-EN3
Other fuels (propane, gasoline, kerosene, stove oil, furnace oil)	Megawatt hours	238,395	261,412	318,052	307,322	G4-EN3
Total indirect energy consumed – electricity	Megawatt hours	463,904	492,610	424,493	477,923	G4-EN3
Energy intensity ^(h)	Megawatt hours per million U.S. dollars of rail freight revenue	2.10	2.20	2.30	2.36	G4-EN5
GTMs intensity	Per U.S. gallon of fuel consumed	987	973	959	931	G4-EN5
NOx, SOx, AND OTHER SIGNIFICANT RAIL EMISSIONS IN CANADA⁽ⁱ⁾						
Nitrous oxides (NOx)	Kilo tonnes	54.20	45.80	48.71	46.50	G4-EN21
Sulphur dioxide (SOx)	Kilo tonnes	0.23	0.19	0.21	0.16	G4-EN21
Particulate matter	Kilo tonnes	1.35	1.14	1.21	1.20	G4-EN21
Hydro carbons	Kilo tonnes	2.64	2.23	2.37	2.30	G4-EN21
Carbon monoxide	Kilo tonnes	7.68	6.50	6.91	6.45	G4-EN21

Data	Measurement	2012	2011	2010	2009	GRI Indicator
ENVIRONMENT						
NO_x, SO_x, AND OTHER SIGNIFICANT RAIL EMISSIONS IN THE U.S.^(a)						
Nitrous oxides (NO _x)	Kilo tonnes	19.70	24.10	17.20	15.60	G4-EN21
Sulphur dioxide (SO _x)	Kilo tonnes	0.08	0.10	0.07	0.05	G4-EN21
Particulate matter	Kilo tonnes	0.48	0.59	0.42	0.39	G4-EN21
Hydro carbons	Kilo tonnes	0.98	1.19	0.86	0.79	G4-EN21
Carbon monoxide	Kilo tonnes	2.72	3.35	2.37	2.10	G4-EN21
EFFLUENT AND WASTE						
Total weight of waste generated ⁽ⁱ⁾	Metric tonnes	50,234	51,291	59,500	N/A	G4-EN23
Total hazardous waste generated	Metric tonnes	511	688	839	N/A	G4-EN23
Total non-hazardous waste (excluding locomotive batteries, rail ties and scrap metal)	Metric tonnes	49,723	50,603	58,661	N/A	G4-EN23
Disposal methods^(k)						
Recycled	Metric tonnes	12,921	N/A	N/A	N/A	G4-EN23
Recovery for energy	Metric tonnes	10	N/A	N/A	N/A	G4-EN23
Incinerated	Metric tonnes	53	N/A	N/A	N/A	G4-EN23
Deep well injected	Metric tonnes	182	N/A	N/A	N/A	G4-EN23
Sent to landfill	Metric tonnes	34,761	N/A	N/A	N/A	G4-EN23
Treatment	Metric tonnes	888	N/A	N/A	N/A	G4-EN23
Water discharge	Metric tonnes	78	N/A	N/A	N/A	G4-EN23
Disposed in caverns	Metric tonnes	109	N/A	N/A	N/A	G4-EN23
Waste fuel blended	Metric tonnes	1,231	N/A	N/A	N/A	G4-EN23
BIODIVERSITY AND LAND MANAGEMENT						
Spend on site assessments and remediation	\$ million	23.8	15.5	19.8	15.0	–

(a) Our Scope 1 and 2 GHG emissions are consolidated based on an operational control approach.

(b) Our GHG scope 1 emissions include rail and non-rail emissions, using a base year of 2009 when we had compiled a complete set of GHG emissions data. The GHG Protocol was applied. We measured carbon dioxide, methane and nitrous oxides using emission factors and global warming potentials from Environment Canada National Inventory and the International Panel on Climate Change factors, respectively.

(c) Our GHG scope 2 emissions comprise electricity emissions only, using a base year of 2009 when we had compiled a complete set of GHG emissions data. The GHG Protocol was used to calculate the scope 2 GHG emissions, covering: carbon dioxide, methane and nitrous oxide. We applied North American utility cost per MWh conversion factors and used Environment Canada's National Inventory conversion factors to convert MWh into tonnes of CO₂e.

(d) Our GHG scope 3 emissions relate to business travel, using a base year of 2011 when we had compiled a complete set of Scope 3 emissions. The emissions are provided from corporate travel service providers.

(e) The calculations for GHG emission intensity cover Scope 1 and 2 emissions only.

(f) The rail emission intensity is a measure of the tonnes of CO₂e per Gross Ton Mile (GTM). We have established a 15% reduction target for our rail GHG emission intensity by 2015, based on 2005 data. In 2012, we achieved a 14% reduction against this target.

(g) Energy consumption relates to non-renewable fuel and electricity consumed within the Company. Conversions to MWh from volumes of fuel or electricity consumed were based on Natural Resource Canada conversion factors. CN does not use fuel from renewable sources.

(h) Energy includes total direct and indirect energy, covering locomotive fuel, non-locomotive fuel, natural gas, and other fuels such as propane, gasoline, kerosene, stove oil, and furnace oil. The energy is used within the organization only.

(i) NO_x, SO_x, and other significant rail emissions were calculated using Canadian emissions factors published by the Railway Association of Canada (RAC). The most recent 2010 emission factors were used to calculate 2011 and 2012 emissions. We recalculated our emissions from 2009 to reflect the RAC change in methodology.

(j) Waste quantities are provided by our third party waste disposal contractor. Where data was not available, estimations were made based on extrapolations of the data. Definitions of hazardous and non-hazardous waste are based on provincial and state regulations, which we assess on a case by case basis depending on the condition of the waste.

(k) Waste disposal methods and associated quantities are provided to us by our third party waste disposal contractor.

Data	Measurement	2012	2011	2010	2009	GRI Indicator
SAFETY						
JOINT MANAGEMENT: WORKER HEALTH AND SAFETY (H&S) COMMITTEES⁽¹⁾						
Number of joint union-management H&S committees	Number	106	106	100	95	G4-LA5
% workforce in joint union-management H&S committees	%	4	4	4	3	G4-LA5
OCCUPATIONAL H&S INCIDENTS (EMPLOYEES)^(m)						
Injury rate – Federal Railroad Administration (FRA)	Ratio	1.42	1.55	1.72	1.78	G4-LA6
Canada	Ratio	1.29	1.45	1.67	1.61	G4-LA6
U.S.	Ratio	1.79	1.94	2.12	2.37	G4-LA6
Female	Ratio	0.57	0.87	1.28	1.02	G4-LA6
Male	Ratio	1.53	1.67	1.85	1.91	G4-LA6
Lost time injury rate – Federal Railroad Administration (FRA)	Ratio	0.93	0.97	1.22	1.30	G4-LA6
Canada	Ratio	0.71	0.71	1.02	1.07	G4-LA6
U.S.	Ratio	1.41	1.57	1.71	1.92	G4-LA6
Female	Ratio	0.31	0.49	1.03	0.77	G4-LA6
Male	Ratio	0.99	1.02	1.24	1.35	G4-LA6
Accidents						
FRA accidents per million train miles	Per million train miles	2.10	2.25	2.23	2.27	G4-LA6
Transport Safety Board of Canada (TSB) accidents per million train miles	Per million train miles	6.55	7.33	7.97	8.18	G4-LA6
Crossing accidents	Number	179	211	220	233	G4-LA6
Trespassing accidents	Number	63	89	88	76	G4-LA6
FATALITIES – ON DUTY EMPLOYEES⁽ⁿ⁾						
Canada	Number	1	1	1	0	G4-LA6
U.S.	Number	0	0	0	0	G4-LA6
Female	Number	0	0	0	0	G4-LA6
Male	Number	1	1	1	0	G4-LA6

(1) The joint union-management health & safety committee exists at the local level across the system.

(m) As a North American railroad, our occupational health & safety metrics are based on industry guidelines set by the Federal Railroad Administration (FRA) and the Transport Safety Board (TSB) of Canada. We track the FRA injury and accident rate and the TSB accident rate across all our operations in North America. The FRA injury rates per country and gender are based on an estimate using demographic data calculations. The FRA injury rate is the number of reportable injuries per 200,000 hours worked. According to the FRA, a reportable injury rate must: be occupational or work-related; be a new case, and not a new episode of an already existing medical condition; and result in one of the following situations – death, day(s) away from work, day(s) on modified or alternate duties, medical treatment and or loss of consciousness. In 2012, 80% of our reportable injuries represented: sprain or strain (41%), cut/laceration/abrasion (13%), fractures (10%), bruise or contusion (10%), and painful body part (7%). The remaining 20% is represented by over 30 different injury types.

(n) In 2012, 2011 and 2010, we did not have any contractor fatalities.

Data	Measurement	2012	2011	2010	2009	GRI Indicator
PEOPLE						
TOTAL EMPLOYEES						
Total number of full-time employees (end of year) ^(o)	Total number	23,430	23,230	22,279	N/A	G4-9
CN employees ^(p)	Total number	22,391	22,268	21,312	N/A	G4-9
CN wholly-owned subsidiaries	Total number	1,039	962	967	N/A	G4-9
EMPLOYEE BY REGION, GENDER AND TYPE						
Canada	Total number	15,615	15,525	14,720	N/A	G4-10
U.S.	Total number	6,776	6,743	6,592	N/A	G4-10
Female	Total number	1,980	1,929	1,817	N/A	G4-10
Male	Total number	20,411	20,339	19,495	N/A	G4-10
Part-time employees ^(q)	Total number	0	0	0	N/A	G4-10
EMPLOYEE BY CONTRACT^(q)						
Permanent contract	Total number	22,283	22,123	21,237	N/A	G4-10
Female	Total number	1,957	1,909	1,798	N/A	G4-10
Male	Total number	20,326	20,214	19,439	N/A	G4-10
Temporary contract (supervised employees)						
Female	Total number	23	20	19	N/A	G4-10
Male	Total number	85	125	56	N/A	G4-10
COLLECTIVE BARGAINING AGREEMENTS						
% of employees covered by collective bargaining agreements	% of total employees	79.05%	79.01%	79.66%	N/A	G4-11
NEW EMPLOYEE HIRES						
Application pool (via CN website)	Total number	67,750	61,103	89,482	29,427	—
Total employee new hires	Total number	2,398	2,991	2,410	N/A	G4-LA1
New employee hire rate	% of total employees	11%	13%	11%	N/A	G4-LA1
Age group						
New employee hires below 30 years old	Total number of new hires	1,251	1,364	984	N/A	G4-LA1
% new employee hires below 30 years old	% of total employee new hire	52%	46%	41%	N/A	G4-LA1
New employee hires between 30-50 years old	Total number of new hires	1,078	1,514	1,286	N/A	G4-LA1
% new employee hires between 30-50 years old	% of total employee new hire	45%	51%	53%	N/A	G4-LA1
New employee hires above 50 years old	Total number of new hires	69	113	140	N/A	G4-LA1
% new employee hires above 50 years old	% of total employee new hire	3%	4%	6%	N/A	G4-LA1
Gender						
Female	Total number of new hires	230	248	244	N/A	G4-LA1
% new employee hires – female	% of total employee new hire	10%	8%	10%	N/A	G4-LA1
Male	Total number of new hires	2,168	2,743	2,166	N/A	G4-LA1
% new employee hires – male	% of total employee new hire	90%	92%	90%	N/A	G4-LA1
Region						
Canada	Total number of new hires	1,806	2,232	1,780	N/A	G4-LA1
% of new employee hire in Canada	% of total employee new hire	75%	75%	74%	N/A	G4-LA1
U.S.	Total number of new hires	592	759	630	N/A	G4-LA1
% of new employee hire in the U.S.	% of total employee new hire	25%	25%	26%	N/A	G4-LA1

Data	Measurement	2012	2011	2010	2009	GRI Indicator
PEOPLE						
EMPLOYEE TURNOVER⁽¹⁾						
Total versus voluntary rate						
Total employee turnover number	Total number	2,263	2,219	2,107	N/A	G4-LA1
% total employee turnover rate	% of total employee turnover number	10.1%	10.0%	9.9%	N/A	G4-LA1
Total voluntary employee turnover number	Total number	656	667	553	N/A	G4-LA1
% voluntary employee turnover rate	% of total employee voluntary turnover number	2.9%	3.0%	2.6%	N/A	G4-LA1
% employee pride	% of new hires proud to be at CN	92	85	N/A	N/A	–
Age group						
Employee turnover below 30 years old	Total number	407	392	331	N/A	G4-LA1
% employee turnover below 30 years old	% of total employee turnover number	18.0%	17.7%	15.7%	N/A	G4-LA1
Employee turnover between 30-50 years old	Total number	659	616	472	N/A	G4-LA1
% employee turnover between 30-50 years old	% of total employee turnover number	29.1%	27.8%	22.4%	N/A	G4-LA1
Employee turnover above 50 years old	Total number	1,197	1,211	1,304	N/A	G4-LA1
% employee turnover above 50 years old	% of total employee turnover number	52.9%	54.6%	61.9%	N/A	G4-LA1
Gender						
Employee turnover – women	Total number	160	138	122	N/A	G4-LA1
% employee turnover – women	% of total employee turnover number	7.1%	6.2%	5.8%	N/A	G4-LA1
Employee turnover – men	Total number	2,103	2,081	1,985	N/A	G4-LA1
% employee turnover – men	% of total employees turnover number	92.9%	93.8%	94.2%	N/A	G4-LA1
Region						
Canada	Total number	1,647	1,573	1,531	N/A	G4-LA1
% employee turnover in Canada	% of total employee turnover number	73%	71%	73%	N/A	G4-LA1
U.S.	Total number	616	646	576	N/A	G4-LA1
% employee turnover in the U.S.	% of total employee turnover number	27%	29%	27%	N/A	G4-LA1
ABSENTEEISM RATES⁽²⁾						
Female	% of absentee hours on actual hours of service	3.4	3.5	3.8	3.3	G4-LA6
Male	% of absentee hours on actual hours of service	3.1	3.2	3.2	3.2	G4-LA1
Canada	% of absentee hours on actual hours of service	3.1	3.0	3.1	3.0	G4-LA1
U.S.	% of absentee hours on actual hours of service	3.3	3.7	3.8	3.7	G4-LA1
TRAINING AND EDUCATION						
Total hours of training	Total number of hours	861,135	797,615	673,868	434,500	–
Average training hours						
Employee	Average hours	35.8	34.7	30.7	19.9	G4-LA9
Female	Average hours	20.9	22.6	21.5	N/A	G4-LA9
Male	Average hours	35.3	34.9	31.9	N/A	G4-LA9
Management	Average hours	37	27	41	N/A	G4-LA9
Unionized	Average hours	36	33	29	N/A	G4-LA9
REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEW						
% of total employees receiving reviews	% of total employees	100	100	100	100	G4-LA11

Data	Measurement	2012	2011	2010	2009	GRI Indicator
PEOPLE						
DIVERSITY AND EQUAL OPPORTUNITY						
Females	% of total employees	8.84%	8.66%	8.53%	N/A	G4-LA12
Minority groups represented ^(o)	% of total employees	9.98%	9.85%	9.46%	N/A	G4-LA12
Age group						
% over 50	% of total employees	17.8%	16.2%	13.6%	N/A	G4-LA12
% over 30-50	% of total employees	45.8%	45.3%	45.6%	N/A	G4-LA12
% below 30	% of total employees	36.3%	38.5%	40.8%	N/A	G4-LA12
Governance bodies						
Board of Directors	Total number	13	N/A	N/A	N/A	G4-LA12
% of females	% of total Board	15%	N/A	N/A	N/A	G4-LA12
% over 50	% of total Board	100%	N/A	N/A	N/A	G4-LA12
% that represent a visible minority groups	% of total Board	0%	N/A	N/A	N/A	G4-LA12
Employee categories						
Senior management (officers)	Total number of senior management	32	30	29	N/A	G4-LA12
% of females	% of senior management	13%	7%	7%	N/A	G4-LA12
% over 50	% of senior management	66%	63%	69%	N/A	G4-LA12
% over 30-50	% of senior management	34%	37%	31%	N/A	G4-LA12
Management	Total number of management	4,658	4,645	4,306	N/A	G4-LA12
% of females	% of management	22%	22%	23%	N/A	G4-LA12
% over 50	% of management	38%	39%	39%	N/A	G4-LA12
% over 30-50	% of management	52%	51%	52%	N/A	G4-LA12
% below 30	% of management	10%	9%	9%	N/A	G4-LA12
% of minority groups represented	% of management	11.3%	11.0%	10.8%	N/A	G4-LA12
Non-management	Total number of non-management	17,701	17,593	16,977	N/A	G4-LA12
% of females	% of non-management	5%	5%	5%	N/A	G4-LA12
% over 50	% of non-management	36%	38%	41%	N/A	G4-LA12
% over 30-50	% of non-management	44%	44%	44%	N/A	G4-LA12
% of minority groups represented	% of non-management	9.6%	9.5%	9.1%	N/A	G4-LA12
EQUAL REMUNERATION FOR WOMEN AND MEN^(u)						
Senior management (officers)	Ratio of women to men	0.977	N/A	N/A	N/A	G4-LA13
Management	Ratio of women to men	0.976	N/A	N/A	N/A	G4-LA13
Non-management	Ratio of women to men	0.850	N/A	N/A	N/A	G4-LA13

(o) The total number of employees (end of year) is provided as reported in the 2012 CN Annual Report.

(p) The breakdown of employee data in the data table covers CN employees only. The breakdown of employee data was not available for CN wholly-owned subsidiaries.

(q) As defined by national laws.

(r) Employee turnover is the number of employees who leave the organization voluntarily or due to dismissal, retirement, or death in service.

(s) The absenteeism rate is the number of casual actual absentee hours of our employees expressed as a percentage of the actual number of hours an employee was available to work during a given year (hours of service). Hours of service are reduced for any prolonged absences, lost time days etc. The absenteeism rate does not include any known prolonged absences (i.e.: sick leave, extended injury leaves) or absences related to holidays, study, maternity or paternity leave, and compassionate leave.

(t) Minority refers to designated groups covering women, people with disabilities, Aboriginal peoples, and visible minorities.

(u) The ratio is based on basic salary in North America. Significant location represents our operations in Canada and the U.S.

Data	Measurement	2012	2011	2010	2009	GRI Indicator
COMMUNITY AND ECONOMY						
ECONOMIC PERFORMANCE						
Direct economic value generated (revenue)	\$ million	9,920	9,028	8,297	7,367	G4-EC 1
Economic value distributed	\$ million	7,195	6,815	6,012	5,705	G4-EC 1
Operating costs	\$ million	6,235	5,732	5,273	4,961	G4-EC 1
Labour and fringe benefits	\$ million	1,952	1,812	1,744	1,696	G4-EC 1
Purchased services, materials and fuel	\$ million	2,772	2,532	2,084	1,847	G4-EC 1
Other ^(v)	\$ million	1,511	1,388	1,445	1,418	G4-EC 1
Payments to providers of capital – dividends	\$ million	652	585	503	474	G4-EC 1
Payments to governments	\$ million	289	482	214	245	G4-EC 1
Payments to Canadian tax authorities	\$ million	138	360	171	251	G4-EC 1
Payments to U.S. tax authorities	\$ million	151	122	43	(6)	G4-EC 1
Community Investment	\$ million	18.8	16.0	21.8	25	G4-EC 1
Economic value retained	\$ million	2,725	2,213	2,285	1,662	G4-EC 1
Suppliers screened on environmental, social and governance issues ^(w)	%	–	–	–	–	G4-EN32 G4-LA14 G4-HR10 G4-SO9

(v) Other expenses includes depreciation and amortization, equipment rents, casualty and other.

(w) In 2013, we screened 74% of our critical suppliers on environmental, social and governance issues, including our new suppliers.

Our Impacts Within and Outside CN

As part of the process to establish priorities for the content of this report, we identified the relevant topics and determined where potential impacts could occur within and outside of the company. We considered financial, technological, market, reputational, societal and environmental impacts.

Impacts within CN occur throughout the entire company. Given that our subsidiaries are integrated into CN's business, we determined that it was more relevant to consider the

impact of our material aspects in terms of our operations instead of at a subsidiary level. Within the company, our boundary relates to the CN corporate office, buildings and rail yards, and CN transportation operations and services. Impacts outside CN occur through our relationships with suppliers, customers, the broader community and the ecosystems through which our operations extend.

This process established the boundary of our relevant topics and scope of this report. It revealed that in the eyes

of our stakeholders, the most important impacts occur across the entire value chain. With this information, CN can better understand the risks inherent in our operations, focus on mitigating the most important impacts and produce a report that better addresses the information needs of all stakeholders.

As we mature this process will continue to inform our strategy and our report.

WHERE IMPACTS CAN OCCUR WITHIN AND OUTSIDE CN FOR OUR SIGNIFICANT TOPICS

Significant Topics ^(a)	CN Corporate Office, Buildings and Rail Yards	CN Transportation Operations and Services	Our Customers	Our Suppliers	Broader Community and Ecosystem
SAFETY					
Safety emergency response	●	●	●		●
Rail safety programs	●	●	●		●
Occupational health and safety	●	●			
Rail accidents and safety	●	●	●		●
ENVIRONMENT					
Rail fuel efficiency		●	●		●
Innovation and technology	●	●		●	
Energy	●	●		●	●
Renewable energy		●	●	●	●
Biodiversity	●				●
GHG emissions		●	●	●	●
NOx, SOx emissions		●			●
Waste	●			●	●
Rail congestion	●	●	●		●
Hazardous spills	●	●	●		●
Clean-up remediation	●				●
Climate strategy	●	●		●	●
Noise and vibration	●	●			●

Significant Topics ^(a)	CN Corporate Office, Buildings and Rail Yards	CN Transportation Operations and Services	Our Customers	Our Suppliers	Broader Community and Ecosystem
COMMUNITY					
Direct economic impact	•				•
Socio-economic impact	•		•	•	•
Community investment strategy	•				•
Community investment contributions	•				•
Humanitarian relief			•		•
CUSTOMER					
Customer satisfaction and service	•	•	•		
GOVERNANCE					
Human rights	•			•	•
Non-discrimination	•		•	•	•
Risk management	•	•	•	•	•
Stakeholder engagement	•		•	•	•
External assurance	•		•		•
ESG policy positions	•				•
PEOPLE					
Workforce planning	•	•			•
Health and wellness	•	•			•
Training and education	•	•			•
Employee engagement	•	•			•
Equity and diversity	•	•			•
Aboriginal communities	•			•	•
SUPPLY CHAIN MANAGEMENT					
Responsible procurement	•			•	•
Supplier screening	•			•	•
Local supplier spend				•	•

(a) Significant topics are those topics that were considered to be important or very important to CN and/or its stakeholders.

Glossary of Terms

Class I Railroad

A Class I railroad in the United States, or a Class I railway (also Class I rail carrier) in Canada, is one of the largest freight railroads, as classified based on operating revenue. Smaller railroads are classified as Class II and Class III. The exact revenues required to be in each class have varied through the years, and they are now continuously adjusted for inflation. As determined by the Surface Transportation Board, the threshold for a Class I Railroad in 2012 was \$452,653,248.

Cogeneration

Cogeneration plants simultaneously generate both electricity and useful heat and can utilize a variety of fuel sources including wood.

Dangerous Goods

In Canada, the *Transportation of Dangerous Goods Regulations*, section 1.4, defines dangerous goods as: explosives, gases, flammable and combustible liquids, flammable solids, oxidizing substances, organic peroxides, poisonous (toxic) and infectious substances, nuclear substances, corrosives, or miscellaneous products, substances or organisms considered by the Governor in Council to be dangerous to life, health, property or the environment when handled, offered for transport or transported.

In the United States, a hazardous material is defined by the U.S. Department of Transportation Hazardous Materials Regulations as a substance or material which has been determined by the Secretary of Transportation to be capable of posing an unreasonable risk to health, safety, and property when transported in commerce, and which has been so designated.

Energy Efficiency

This term refers to how effectively energy is being used for a given purpose. For example, providing a similar (or better) level of service with less energy consumption on a per unit basis is considered an improvement in energy efficiency. Energy efficiency is measured in units of energy such as British thermal units (BTU), megajoules (MJ), gigajoules (GJ), kilocalories (kcal), or kilowatt-hours (kWh).

Energy Intensity

The amount of energy used per unit of activity. Examples of activity measures are households, floor space, passenger-kilometres and tonne-kilometres.

Fuel Efficiency

The output one gets for a unit amount of fuel input such as “miles per gallon” or “litres per 100 kilometres” (l/100 km) for an automobile or ton-miles (of freight) for rail.

Greenhouse Gas Intensity

Greenhouse Gas Intensity at CN refers to the kilograms of greenhouse gas emissions per gross ton mile of freight.

Gross Ton Mile (GTM)

A measure of the movement of one ton of freight or equipment over one mile.

Heavy Truck

A truck with a gross vehicle weight that is more than, or equal to, 14,970 kg (33,001 lb). The gross vehicle weight is the weight of the empty vehicle plus the maximum anticipated load weight.

Interline

Interline refers to shipments that involve more than one railroad as they move from origin to destination.

Remediation

Environmental remediation deals with the removal of pollution or contaminants from the environment that have affected the soil, groundwater or surface water, for the general protection of human health and the environment.

TEST Railcar

The TEST railcar is a refurbished passenger coach railcar that contains state-of-the-art technology that analyzes and monitors geometric imperfections of the track structure as well as rail wear using video cameras, lasers, electronic sensors, simulators and talking computers. Any imperfections that exceed FRA or Transport Canada safety guidelines or CN's own standards are immediately addressed by maintenance personnel. Information from the railcar is also used for long- and short-term maintenance planning purposes as well as in capital replacement strategy.

Trip Plan

A detailed transit plan for every shipment on CN and connecting lines that includes the stations the shipment is scheduled to pass through and estimated time of arrival at destination.

Waste Fuel

A name applied to any number of energy sources other than conventional fuels used in the cement industry. It includes materials such as tires, municipal waste and landfill off-gases.



Contact

We welcome comments, questions and feedback on this report. Please contact:

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About CN

CN was incorporated in 1922 as the Canadian National Railway Company (CN). We were privatized in 1995, transformed from a crown corporation into an investor-owned company. Headquartered in Montreal, Quebec, our stock trades on the Toronto Stock Exchange (CNR) and the New York Stock Exchange (CNI). For more information, please refer to our annual information form.

Forward-looking Statements: In reviewing the risks and opportunities within this report, it is important to note that certain information may be “forward-looking statements.” As such, CN cautions, that by their nature, forward-looking statements involve risks, uncertainties and assumptions. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, which may cause the actual results or performance of the Company or the rail industry to be materially different from outlook or any future results or performance implied by such statements. Important factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions, industry competition, inflation, currency and interest rate fluctuations, changes in fuel prices, legislative and/or regulatory developments, compliance with environmental laws and regulations, actions by regulators, various events which could disrupt operations, including natural events such as severe weather, droughts, floods and earthquakes, labour negotiations and disruptions, environmental claims, uncertainties of investigations, proceedings or other types of claims and litigation, risks and liabilities arising from derailments, and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States.



What does CN stand for?

A set of core beliefs that drive how we do business every day and will continue our transformational journey

Operational and Service Excellence

- A critical balancing act: ensuring both operational efficiency and service that is responsive to our customer
- A commitment to continuously raise the bar from both an operational and a customer perspective
- Acting as a true supply chain enabler

Creating Value for Our Customers

- Delivering reliably and efficiently every day
- Helping our customers win in their own markets
- Opening up new markets across the business

Creating Value for Our Shareholders

- Staying true to our business model
- Growing the business at low incremental cost
- Investing smartly for growth and productivity

Delivering Responsibly

- Safety first, always
- Reducing our total environmental footprint beyond emissions
- Engaging our people, connecting with communities

Playing Our Role as a Backbone of the Economy

- Nearly 20% of Canada's export-based traffic moves over CN's network
- Connecting our customers to the world
- Aiming to be a key part of the solution