



Delivering Responsibly

CN's 2008 Corporate
Citizenship Report



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Delivering Responsibly

Governance
Environment
People
Safety
Community

We are an engaged corporate citizen: committed to the safety of our employees and the public, invested in building shareholder value and stronger communities, focused on environmental stewardship and building a great place to work.

For more details on the information highlighted in this report, go to: www.cn.ca/deliveringresponsibly.

Message from
the President



Delivering responsibly for a sustainable future

When people talk about sustainable business practices they refer to creating long-term success by strengthening communities and society in a way that creates economic opportunities and protects the environment. This is a pretty good description of what CN is already all about.

First, good corporate governance has been fundamental to the way we've run our business for a long time. Whether someone is leading departments or running trains, all CN employees are required to adhere to the highest standards of ethical business conduct.

For the environment, rail transportation is clearly the responsible choice. Rail transports one tonne of freight 197 kilometres on just one litre of fuel, or more than 436 miles per gallon. Efficient use of fuel means less greenhouse gases, which is welcome news for our planet. Moreover, thanks to newer, more fuel-efficient locomotives and the more efficient use of them, CN has successfully reduced locomotive emissions despite increasing our traffic volumes.

Our commitment to strengthening the communities in which we operate includes a wide variety of programs and initiatives which I invite you to read about in this report. From raising millions of dollars for children's hospitals to teaching safety in the classroom and our new Railroaders in the Community volunteer program, we demonstrate our responsibility as a corporate citizen in countless ways.

Inside CN, we strive to create a rewarding, inclusive workplace in which employees can be the best railroaders they can be. I am proud to say that "People" is one of our five guiding corporate principles because we simply cannot be successful without a commitment to building a great team.



Our 2008 Delivering Responsibly report has been greatly expanded to include reporting on the many areas in which we are working hard to create a more sustainable future. The work has been inspired by Global Reporting Initiative (GRI) guidelines which provide an internationally accepted framework for sustainability reporting. There's no doubt there are areas where we must do better, but our attitude is to continuously improve everywhere, even in the things that we do very well, and to deliver responsibly to all our stakeholders, every time.

E. Hunter Harrison

Company Profile

Already one of North America's leading railroads and an important link in the global supply chain, CN's goal is to create long-term, sustainable, profitable growth for the benefit of all our stakeholders and to be internationally regarded as one of the best-performing transportation companies.



2008 Snapshot*

- Revenues of \$8,482 million
- Net income of \$1,895 million
- Diluted earnings per share of \$3.95
- Market capitalization of \$21 billion
- 20,961 route miles of track
- 22,227 employees:
 - In Canada: 15,667, of which 12,058 were unionized; and,
 - In the United States: 6,560, of which 5,527 were unionized.
- 4.6 million carloads carried on our system
- 178 billion revenue ton miles

Precision Railroading: CN's Superior Business Model

With Precision Railroading, fewer railcars and locomotives are needed to ship the same amount of freight in a tight, effective and efficient operation. Precision Railroading initiatives play a big part in CN's industry-leading operational efficiency and productivity.

Five core principles guide CN's business strategy as part of Precision Railroading:

- providing good service
- controlling costs
- focusing on asset utilization
- committing to safety
- developing people.

An Integrated North American Rail Network

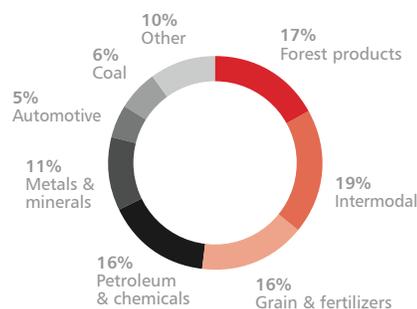
We are the only rail network in North America that connects the continent's three coasts of the Atlantic, the Pacific and the Gulf of Mexico. Our tri-coastal network and the diversified portfolio of goods we transport add up to a powerful means of serving the world's trading nations.

The balance of our commodity mix positions us well to face economic fluctuations and enhances our potential to grow revenues.

* As at December 31, 2008.

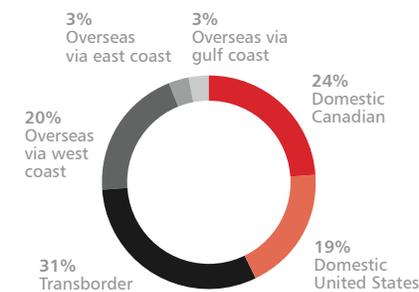
Balanced commodity mix

Based on 2008 revenues



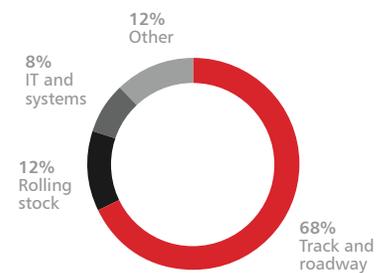
Geographic distribution of revenues

Based on 2008 freight revenues



2009 estimated capital expenditures

% of total (including capital leases)



Investing for Growth

CN's investments in acquisitions, infrastructure improvements and new locomotives are strengthening North America's rail network and bolstering our position in the international market place.

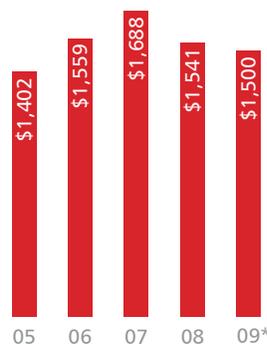
In 2008, CN spent:

- \$1.54 billion in capital of which approximately \$1.1 billion was for track infrastructure to maintain a safe railway and to improve the productivity and fluidity of the network.
- approximately \$200 million on equipment including the acquisition of new fuel-efficient locomotives, as well as improvements to the existing fleet.
- approximately \$300 million on facilities to grow the business, including transloads and distribution centres, information technology to improve service and operating efficiency, and other projects to increase productivity.

Capital Expenditures

In 2009, CN's capital expenditures are expected to be approximately \$1.5 billion, of which more than \$1 billion will be earmarked for rail infrastructure.

In millions



* Estimated



CN's Port of Prince Rupert's Container Terminal, opened in October 2007, is feeding the flow of goods to and from Asia.

CN is headquartered in Montréal, Québec. Its stock trades on the Toronto Stock Exchange (CNR) and the New York Stock Exchange (CNI). In this report, CN refers to Canadian National Railway Company and its operating subsidiaries.

For information on CN's 2008 financial results go to: www.cn.ca/investors.



Governance

Adhering to the highest standards
of ethical business conduct

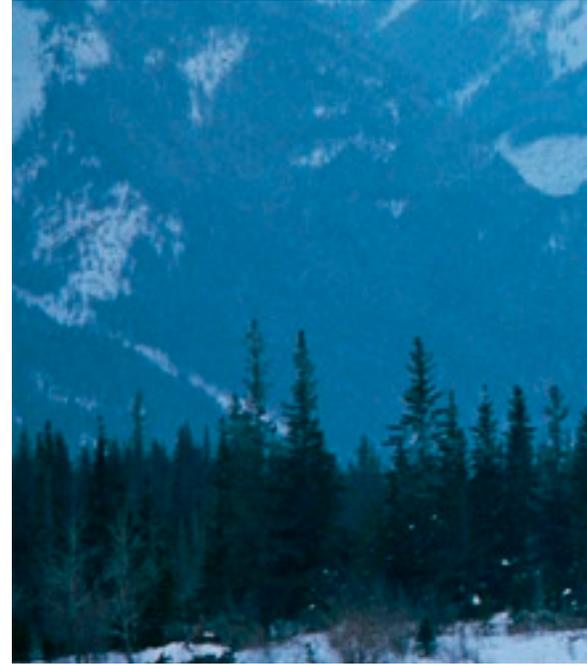


We are committed to adhering to the highest standards in our governance practices. These practices are designed to assist the company in achieving the enhancement of shareholder value on a long-term basis.

Over the years, we have striven to be among North America's leaders in corporate governance, instituting a comprehensive set of practices, policies and procedures to ensure the highest standards of transparency, independence and individual Director performance. Our numerous governance structure and process initiatives include:

- 12 independent Board members on a 14-member Board
- an independent Chairman
- a director-majority voting policy for the election of the company's directors
- procedures for the evaluation of the performance of the Board chair, Board committees and committee chairs, individual Board members and the CEO
- the disclosure of the total value of executive management compensation in the company's Management Information Circular, one of the most thorough disclosures in the market today
- voluntary compliance with certain requirements of the U.S. *Sarbanes-Oxley Act of 2002*, several years before CN was required to do so

Did you know? CN has its own Ombudsman to help support good corporate governance. The CN Ombudsman provides confidential and impartial guidance to CN employees on how to resolve workplace problems or issues related to the company's Code of Conduct. The Ombudsman is also responsible for addressing complaints about CN from the general public. To reach the office of the Ombudsman call 1-866-226-8968 or 514-399-5581, or send an e-mail to ombudsman@cn.ca.



Values, Codes and Policies

Managing our business responsibly requires a solid governance structure as well as policies, systems and other tools that ensure understanding, consistency and adherence throughout the organization.

Code of Business Conduct

We will release an updated **Code of Business Conduct** in 2009 to reflect changes in our environment and to enhance a culture of integrity and ethical business conduct.

The Code addresses matters such as conflict of interest, protection and proper use of corporate assets and opportunities, confidentiality, human rights, fair dealing, compliance with laws and reporting of any illegal or unethical behaviour. Material contraventions by employees to the Code are brought to the attention of CN's Corporate Governance and Nominating Committee.

Focus on the environment

Our Environmental Policy, programs and processes aim to **minimize the impact of our activities on the environment**.

Our Environment group is responsible for the provision of environmental information to CN's Board of Directors, employees, authorities and stakeholders.

Managing risk

CN's approach to risk management enables employees to manage risk and losses, and to leverage opportunities. 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.



Shareholder Communications

We are committed to providing all the relevant, material information about CN to our shareholders in a clear, transparent and timely manner.

CN has established a number of communications channels by which interested parties may communicate with the governance body on issues of concern. We have established a Hot Line to allow employees and other parties to **confidentially report** any concerns relating to accounting, auditing

or corporate ethics. A quarterly report of all complaints and/or disclosures as well as any follow-up action is made to CN's Audit Committee.

In addition, interested parties have direct access to the Board Chair through CN's website. All valid concerns are reported periodically by the Chair to the Board.

Ranked one of Canada's 50 Best Corporate Citizens in 2008 by Corporate Knights.



Environment

Focused on environmental
stewardship



We are committed to business practices that protect the natural environment and ensure employee and public safety and health. At CN facilities, a combination of key resource people, programs and processes help to minimize the impact of our activities on the environment.

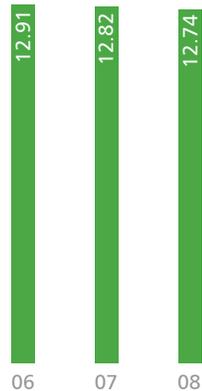
2008 Highlights

- Acquired more than 100 **new fuel-efficient**, high-horsepower locomotives between 2007 and 2008. CN has ordered an additional 25 units for 2009.
- Launched a greenhouse gas emissions calculator that allows shippers to measure emissions savings for shipments using CN.
- Awarded a **Conservation Award of Excellence** by Ontario-based Conservation Halton for demonstrating stewardship in protecting the natural environment.
- Continued participation in the **US SmartWay Agreement** to increase energy efficiency while reducing air pollution and greenhouse gases.
- Renegotiated a voluntary agreement with **Environment Canada** and **Transport Canada** to reduce our emissions intensity over time.
- Continued participation in the **Government of Alberta's Carbon Offset Program** to give customers emissions credits for switching from truck transport to rail freight transport.
- Commitment to increase participation in the **Carbon Disclosure Project**, which focuses attention on the carbon emissions of the world's largest corporations and effective reduction strategies.

Note: 2008 data for the Environment section will be available in the second quarter 2009.

GHG Intensity* at CN

CO₂ equivalent
(kg/1,000 Gross Ton Mile)



* The kilograms of greenhouse gases emitted per gross ton-mile of freight.
Note: Figures for 2006 and 2007 have been recalculated due to the use of a new emissions factor by Environment Canada.



Rail: a better route to sustainability.

The table above summarizes GHG emissions from CN's locomotives for the last three years in tonnes of CO₂ equivalent. When our emissions are compared to our traffic volumes, we have actually been able to reduce emissions per GTM.

Emissions Reduction

At CN, we believe the single best way railroads can positively impact the environment is by continuously improving the efficiency of our operations to reduce our carbon footprint.

How we're reducing our carbon footprint:

○ Using Precision Railroading

Fewer railcars. The way we run our railroad – using Precision Railroading – means fewer railcars and locomotives are needed to ship the same amount of freight. The result is a tight, effective and efficient operation that translates into **greater reliability for customers and less impact on the environment.**

○ Ensuring a greener fleet every year

New locomotives. Produce **40 per cent less nitrogen oxides** and consume between **15 and 20 per cent less fuel**. Since 2005, CN has purchased 145 new locomotives.

Automatic Stop/Start devices. Conserve fuel and reduce emissions by automatically shutting down locomotives when they are not in use.

Low idling. Saves approximately **10 litres of fuel an hour** by allowing the diesel engine to idle at a reduced speed when locomotives are coasting downhill or awaiting assignment.

○ Employing better practices in our yards

Crew training. Focuses on the importance of fuel conservation practices.

Locomotive shutdowns. Bring important fuel savings.

Car handling. Results in switching only the number of cars needed in our yards – **reducing emissions.**

○ Other initiatives

Dynamic brakes. Use less fuel to control train speed. **91 per cent** of CN's mainline locomotives are equipped with dynamic brake systems.

Rail lubrication. Reduces surface friction between the rail and freight cars, requiring less effort to maintain a specific speed. Lower fuel consumption and lower GHG emissions are the result. Approximately **62 per cent** of CN's locomotives are equipped with lubrication systems.

New engine technologies. CN is researching new engine technologies to further reduce emissions, such as hydrogen injection, battery powered hybrid switchers and alternative fuels.

The greenest choice. Rail moves one tonne of freight 197 kilometres on just one litre of fuel. Efficient use of fuel means a reduction in greenhouse gas emissions.



Environmental Programs

Biodiversity

CN's network passes through a wide range of habitats, including national parks, forests, prairies and wetlands. To coexist with wildlife and aquatic life, we strive to meet or exceed all environmental regulations and we self-regulate to minimize potential impacts from our operations.

Protecting aquatic life

CN has long been sensitive to the need to balance essential track work with aquatic protection. Our objective is to **prevent and correct impacts to the ecosystems in areas where we operate**. For example, we maintain a fish passage restoration program to address fish migration problems

as a result of historical activity. Recent corrective measures to historical activities include the replacement or modification of fish culverts in British Columbia and Alberta.

Storm and Wastewater

CN produces wastewater at maintenance shops and other sites as part of operating a railroad. We comply with all environmental agency regulations governing the discharge of company storm and wastewater.

We are currently in the process of upgrading our treatment plants with computerized Supervisory Control and Data Acquisition (SCADA) systems that allow us to remotely control the water treatment process and ensure we are in compliance with discharge regulations.

In addition to the responsible management of discharges from our wastewater systems, **CN actively looks for ways to reduce our water consumption.**

For example, water is reclaimed from wastewater treatment plants at some CN yards to wash locomotives. In addition, at CN's Diesel Shop in Memphis, which started up in December 2008, engine coolants from locomotives are recovered and reused in the locomotives after they are repaired in the shop.

2008 Conservation Award of Excellence
by Ontario-based Conservation Halton for demonstrating
stewardship in protecting the natural environment.



Continually enhancing our level of preparedness.

Did you know? In 2007, CN's R&D spending on alternative approaches to site assessment or remediation was over C\$2 million.

Emergency Preparedness

We take great measures to prevent environmental incidents from occurring in the operation of our Class 1 railroad. However, when incidents do occur, CN has a comprehensive Emergency Response Plan (ERP) and procedures in place to deal diligently with the situation.

CN follows an Environmental Incident Reporting and Communication Procedure which is integrated into an incident command system. The Procedure aims to ensure every incident with an environmental impact is immediately reported to government authorities and that the impact is contained to a minimum. The safety of the public and of workers is a top priority and CN works closely with government environmental officials during and after an incident to ensure sites are restored to government standards.

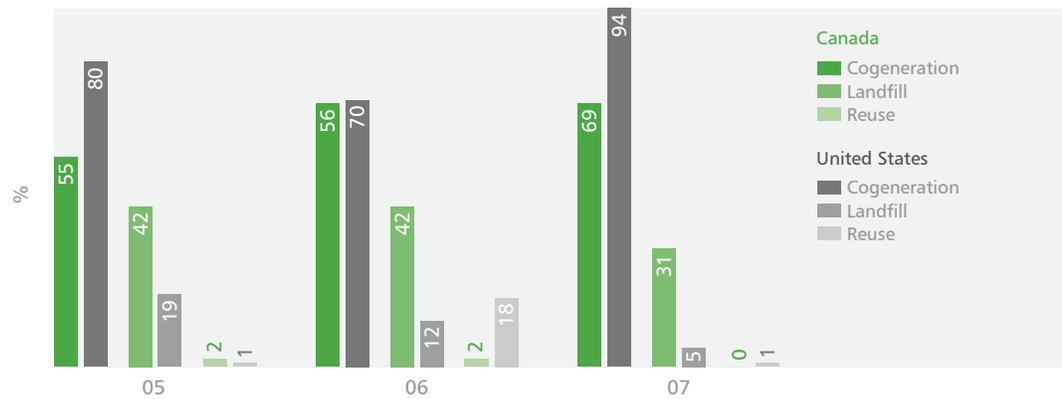
Site Assessment and Remediation

As part of our role as an environmental steward, CN is committed to assessing and managing sites contaminated by historical railroad activities or accidental spills and releases in accordance with CN Environmental Policy and applicable regulations.

In 2007, CN spent approximately **C\$27 million** on site assessment and remediation in Canada and the United States and carried out work on approximately 392 sites.

We have been tracking our environmental liability performance since 1995. By proactively managing our risks, **we have reduced our environmental risk by 34 per cent in the last 10 years.**

Responsible and efficient tie disposal



Recycling

Across the company, CN has programs in place to reduce waste to landfill. We recycle fluorescent tubes, batteries, used oil, used oil filters, scrap metals, as well as rail, cars and ties. At large CN facilities where enough waste is generated, we also recycle such materials as paper, wood pallets and cardboard.

In 2007, CN recycled:

- 90 per cent of all lead acid batteries collected from our operations* and 24 per cent of all other batteries
- 98 per cent of the oil we collected from operations and 66 per cent of used oil filters

Tie disposal

Railroad ties have historically been sent to landfill but over the years, CN has actively looked for opportunities to reuse them where possible.

Old ties can be used as fuel in cogeneration plants, chipped and used as landfill cover, recycled or reused on our own system in low traffic areas. We make every effort to dispose of old ties by sending them to cogeneration plants where feasible.

In 2007, we removed 362,850 rail ties from our system in Canada and 385,386 ties from our network in the United States. Over the years, CN has made efforts to send more scrap rail ties to cogeneration plants which use the ties to generate electricity and heat.

* Not all batteries are recyclable in all provinces/states.



People

Creating a great place
to work



We are committed to the well-being and success of all our employees. We strive to provide a safe, supportive work environment that values respect, trust, integrity and passion. We are also dedicated to ensuring employees can grow to their full potential and be recognized for their contributions to CN's success.

2008 Highlights

- Over 2,082 new railroaders hired.
- 45 scholarships awarded to women studying in non-traditional fields; 2 scholarships to employees' children and grandchildren with disabilities; as well as an Aboriginal Scholarship program totalling \$24,000.
- 14,656 CN employees trained in the company.
- The CN President's Awards for Excellence continued to recognize the outstanding contributions of employees to CN's success.



A passion for doing things the right way, taking the time to mentor others – the human element of what we do is the most important factor in running a safe, high-performance railroad.

People is one of five pillars of our business philosophy, and the foundation on which all our other guiding principles rest.

Modern Collective Agreements

Approximately 80 per cent of our workforce is represented by various unions. The Hourly Rate Agreements we have in place for most of our train crews in the United States are unlike any other collective agreements in the railroad industry. They offer a better quality of life for employees, allow CN to improve our asset utilization and service reliability, and better equip us to attract new employees.

CN's ground-breaking Grievance Tracking System enables real-time tracking of issues in the field for nearly 100 collective agreements in the United States and Canada, helping to speed resolution. The goal of the system, which is **unique in the industry**, is to improve the way grievances are handled and to foster better company-union relationships.

Employment Equity* and Diversity

Employment Equity (Canada)

	2006	2007
Women	9.5%	8.8%
Visible minority	5.4%	5.6%
Disabled	3.2%	2.9%
Aboriginal	2.9%	2.8%

Hiring in Canada

	2006	2007
Women	113 (10.7%)	164 (8.2%)
Visible minority	82 (7.8%)	189 (9.5%)
Disabled	8 (0.8%)	11 (0.6%)
Aboriginal	33 (3.1%)	64 (3.2%)
Total Hiring	1,055	1,993

* CN's Employment Equity tracking relies on employees to self-identify as members of one of the four designated groups. All data represent the percentage of CN's total active workforce as at Dec. 31 of the preceding year.

Training and Development

CN supports a culture of continuous learning, development and growth. We offer employees at all levels **over 2,000 courses** in a variety of fields as well as educational financial assistance to employees who wish to develop their skills.

Some of our leading initiatives include:

Hunter Camp. Hunter Camps, first begun in 2003, are three-day motivational sessions in which our CEO spends time with a group of about 20 CN management employees from across every CN function. In these sessions, Hunter Harrison coaches participants on railroading and leadership techniques in an informal, story-telling format. A total of 375 managers attended the camps in 2008.

Equal Employment Opportunity

(United States)

	2006	2007	2008
Minorities	11.8%	13.2%	14.4%
Non-minorities	88.2%	86.8%	85.6%
Total	100.0%	100.0%	100.0%
Males	94.9%	94.8%	94.2%
Females	5.1%	5.2%	5.8%
Total	100.0%	100.0%	100.0%

Hiring in the United States

	2006	2007	2008
Minorities	140 (28.7%)	140 (30.5%)	148 (25.1%)
Non-minorities	348 (71.3%)	319 (69.5%)	441 (74.9%)
Total	488 (100.0%)	459 (100.0%)	589 (100.0%)
Males	453 (92.8%)	406 (88.5%)	537 (91.2%)
Females	35 (7.2%)	53 (11.5%)	52 (8.8%)
Total	488 (100.0%)	459 (100.0%)	589 (100.0%)

Notes:

1. Minorities include male and female employees who are Black or African American; Hispanic or Latino; Asian; Native Hawaiian or Pacific Islander, American Indian or Alaskan Native.
2. CN's Equal Employment Opportunity tracking relies on employees to self-identify as a minority if they wish.
3. As reported to the U.S. Equal Employment Opportunity Commission on September 30 of each reporting year.

First-line supervisor programs. These six to 12-month programs blend training and structured on-the-job-learning to build the leadership skills and railroad knowledge of newly hired or promoted first-line supervisors in the field.

Executive Development Program. The program is tailored to provide individualized, detailed feedback and development planning for executive, senior and middle-level managers, and is critical in helping to develop CN's talent for the future.

Railroad MBA. Under this unique program, CN senior and executive managers take a leave of absence from their regular jobs to gain hands-on experience in every aspect of the company's operations.

Diversity

Inclusivity, diversity and tolerance are three important principles at CN. Diversity produces better business outcomes by using everyone's unique talents and perspectives to improve service and the bottom line.

Diversity Leadership Council

We launched the Diversity Leadership Council in 2001 to educate employees on the value of diversity in the workforce, and facilitate the sharing of best practices and programs that support diversity. The Council also reviews challenges faced by diverse candidates in the company and considers tactics to remove those barriers.



Engineer Martita Mullen, based in Memphis, Tennessee, is building a great career at CN.

Aboriginal Award Program

CN makes awards available to Inuit, status or non-status Indian or Métis students entering or enrolled full-time in a post-secondary program in Canada that leads to a career in the transportation industry.

Scholarships

Each year, CN offers scholarships for women studying in non-traditional fields; scholarships for employees' children and grandchildren with disabilities; as well as an Aboriginal Scholarship program managed by the National Aboriginal Achievement Foundation.

In 2008:

- two scholarships were awarded in Canada to employees' children and grandchildren with disabilities;
- 45 scholarships of \$600 each were awarded to women in Canada studying in non-traditional occupations;



○ 17 Canadian Aboriginal students were awarded post-secondary scholarships ranging from \$700 to \$1,900 each, for a total of \$24,000.

○ For the 2008/2009 academic year, CN awarded 31 undergraduate scholarships valued at \$2,000 each, and four graduate scholarships valued at \$3,000 each, to children of CN employees and pensioners in Canada and the United States.

Employee Engagement

We believe the more employees understand about our business and its goals the more likely they will contribute to our collective success.

Employee Performance Scorecard

The Employee Performance Scorecard is the formal process for aligning employee performance objectives with our business plan. The one-on-one discussions **help recognize individual contributions**, increase employee understanding of how they impact the plan and build more meaningful connections among employees, supervisors and the business.

President's Awards for Excellence

For over ten years, we have been **recognizing role models in the company** for their innovative ideas, dedication and commitment. Winners of the high-profile President's Awards for Excellence receive an award and recognition.

Through our President's Awards for Excellence, we salute the outstanding accomplishments of employees from across the company. CN boom truck operator Danny Regnier won a President's Award in 2008 for risking his own safety to save the life of an elderly man who was caught on the track as a train approached.

Did you know? We have expanded our Employee Performance Scorecard to include unionized employees, a first for Class 1 railroads in North America. The extension is part of our long-term strategy for a more engaged workforce.



EN



Safety
Putting Safety first

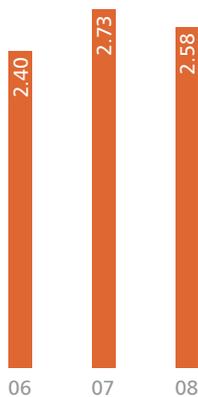


Our vision is to be the safest railroad in North America by establishing an uncompromising safety culture that leads to sustained leadership in safety.

Each year we invest a significant percentage of revenues in safety training, technology and infrastructure to ensure a safe and secure working environment and to deliver our customers' shipments damage-free.

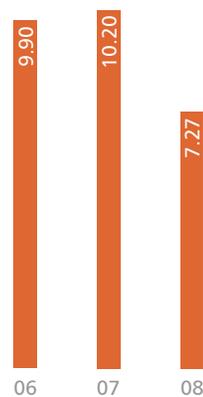
2008 Highlights

**Federal Railroad Administration (FRA)
Train accident ratio**
(accidents per million train miles)



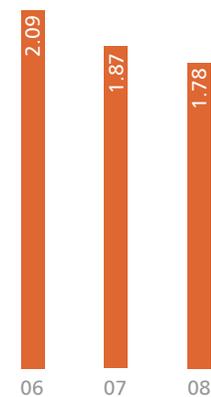
6 per cent
improvement

**Transportation Safety Board (TSB)
Accident ratio – Canada Total**
(accidents per million train miles)



29 per cent
improvement

**Federal Railroad Administration (FRA)
Personal Injury Ratio**
(injuries per 200,000 person hours)

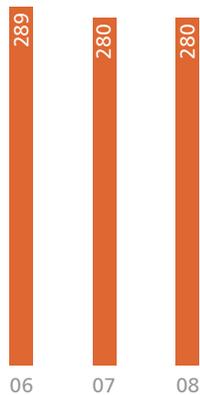


5 per cent
improvement

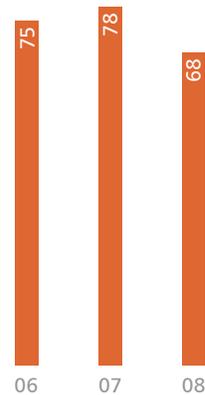
CN is a **Responsible Care®** partner with the Canadian Chemical Producers' Association and the American Chemistry Council, committed to continuously improving the safety of our operations while protecting the environment.



Crossing accidents



Trespassing accidents



Safety Performance

2008 was a solid year for safety with impressive improvements in FRA (Federal Railroad Administration) and TSB (Transportation Safety Board) ratios, including reportable injuries, reportable accidents and accident severity. An unwavering commitment to safety by all employees made these results possible in 2008.

Our FRA accident ratio improved by 6 per cent in 2008 compared to 2007. Our TSB accident ratio was 29 per cent better in 2008 versus 2007. Improvements for both TSB and FRA accidents were driven by reductions in main track and non-main track accidents. Non-main track accidents improved substantially due to the tremendous focus in the company on rules compliance and employee involvement. Engineering initiatives, such as Precision Engineering, ultrasonic rail testing and track inspections were also key in reducing maintrack accidents.

Our FRA injury ratio improved by 5 per cent in 2008 versus 2007 through our concerted efforts to address top injury causes at a local level, involve employees, continue the work of health and safety committees and to foster a strong safety culture. Tragically,

there were three workplace fatalities in 2008, each a sobering reminder of how unforgiving our environment can be.

In 2008, we continued to use a number of prevention strategies to minimize the number of crossing and trespassing accidents on rail property. These included joint force investigations of near accidents with local law enforcement, rail safety presentations at schools and a number of public education initiatives.

Safety Management System

CN's Safety Management System (SMS) is a proactive, comprehensive program designed to minimize risk and continually reduce injuries and accidents.

The SMS implements coordinated initiatives focused on the areas of **People, Process, Technology** and **Investments**.

People-focused Initiatives

CN works hard to create a safe workplace by fostering a culture of safety awareness and safe practices. We invest significantly in training, coaching, awareness, motivation and employee involvement initiatives in safety. Our programs include:



CN employees in Baton Rouge, Louisiana, conduct a daily job safety briefing before starting their work assignments.

Did you know? Safety is a core principle at CN. Every year, CN's Champion Safety Awards salute divisions or functions inside the company who have the lowest and most improved FRA¹ injury and accident ratios and TSB² accident ratios.

Enhanced Coaching

We emphasize coaching employees to become outstanding railroaders. We encourage two-way dialogue between supervisors and employees to clarify expectations and change unsafe behaviours. We also provide supervisors with the tools and support to help them identify employees for special recognition or focused coaching.

The Employee Performance Scorecard

The Employee Performance Scorecard process provides the company with the opportunity to recognize employees for their contribution to CN's five guiding principles, including safety. The process includes unionized employees, a first for Class 1 railroads in North America.

Safety training

Training has always been key to CN's safe practices. Employees in specific operating jobs are required to take mandatory training, such as those involved in the operation of trains.

In 2008, 14,656 employees received training at CN. The vast majority of courses had safe work procedures and processes integrated into the training.

Health and Safety committees

We currently have nearly 100 joint union-management committees across the United States and Canada that help us to identify the top three causes of injuries and accidents in specific areas and implement solutions locally. Initiatives have included providing employees with accident and injury reports for their work areas, developing safe work procedures and educating employees on specific work procedures.

Process Initiatives

Process initiatives aim to make safety a systematic part of all railroad activities and focus on the top causes of accidents and injuries:

Risk Assessment

Risk Assessments allow CN employees to understand the potential safety hazards of railroad activities so they can take action to minimize the risk of an injury or accident. We are striving to have risk assessments become second-nature in our safety practices.

¹ FRA – Federal Railroad Administration

² TSB – Transportation Safety Board



1

1. CN's new Track Geometry car will enable the company to increase testing 23 per cent to 70,000 miles of track in 2009.

2. For decades, CN has been staging mock collisions like this one as a way to ensure absolute preparedness in the event of a collision, derailment, explosion or any other disastrous occurrence.

Did you know? Each year since 2002, CN has invested, on average, the equivalent of 19 per cent of its revenues in its network – the highest ratio in the industry for Class 1 railroads.

Four-second focus

Employees are encouraged to ask themselves just four basic questions before starting a job: *do I have a clear understanding of the work to be performed?; are there any immediate hazards?; am I using the right tools and equipment for the job?; and, are there specific safety rules or procedures to follow?* The tool helps employees zero in on safety and minimize risks.

Safety audits

CN conducts three levels of audits across the system – local, regional and system audits – to ensure we are complying with our Safety Management System and the law, and that employees are properly applying rules and procedures.

In 2008, supervisors performed 309,136 efficiency tests and observations of operational activities. This represents about 850 tests per day, and is a 15 per cent increase from 2007.

Technology and Investments

Improving the fleet

CN continues to invest in capital programs to maintain a safe railway and to improve reliability for our customers. Train productivity is being improved through the use of locomotives equipped with Distributed Power (DP). With DP technology, a locomotive can be placed in the middle of a freight train and remotely controlled from the lead locomotive, improving fuel efficiency and train handling. At the end of 2008, 162 locomotives in CN's fleet were equipped with Distributed Power, a 27-fold increase since 2005.

Wheel Impact Load Detectors (WILD) catch flat spots and other imperfections on wheels as the train passes over the track. **Of the approximately 130 WILDs in North America, CN owns 35.**



Leading-edge technology

We take full advantage of technology in order to minimize risks.

In 2008, we further enhanced our industry-leading wayside and track technology. Our network of Wayside Inspection Systems, **one of the most advanced in North America**, check CN trains for a number of advance warning criteria such as bearing and wheel temperature. All detectors are connected to a central computer that monitors data on a 24/7 basis and enables CN to track trends and react immediately if problems are detected.

CN's high-tech Track Evaluation SysTem (TEST) car contains instrumentation capable of detecting geometric imperfections of the track structure. CN engineering forces use the information to address any track irregularities and to plan long-term rail replacement programs.

In 2008, we took delivery of a new state-of-the-art, self-propelled track geometry vehicle for the electronic inspection of track condition across our network. With the addition of the new Track Geometry car, we expect to increase testing almost 23 per cent to 70,000 miles of track in 2009.

Emergency Response

A critical part of any safety plan is knowing what to do when things go wrong. CN's Emergency Response Plan ensures that, in the event of an incident, there is an immediate, coordinated response to deal with the situation quickly, safely and effectively.

Every year, CN's Dangerous Goods group looks for ways to enhance the company's level of emergency preparedness and

system protection and the preparedness of local responders. In 2008, **we trained over 5,000 emergency responders** on how to respond to incidents involving dangerous goods. We were also recognized with three awards for our Responder Education Assistance and Certification (REACT) program that provides quality emergency training to rural responders. REACT was developed and entirely funded by CN and is unique to North America.

Three awards for CN's emergency response program, REACT:

- 2008 British Columbia Lieutenant Governor's Award for Public Safety for helping to make B.C. communities safer.
- 2008 Safety Award from the Railway Association of Canada for creating better working and operating practices in safe transportation.
- 2008 CN President's Award of Excellence to the CN Dangerous Goods team for demonstrating excellence in the category of safety.



Community

Committed to helping build safer, stronger communities

As one of North America's leading railroads, CN is committed to helping build safer, stronger, communities across Canada and the United States. As a concerned corporate citizen we demonstrate this commitment through responsible community investment.

Every year, CN Police speak to more than 300,000 children and adults about railroad safety to help prevent fatalities and injuries on or near railroad property. Track-side classrooms like this one, at left, are part of CN's educational effort during *Safe Crossing Week*.

2008 Highlights

- The CN Canadian Women's Open raised **\$1 million** for the Children's Hospital of Eastern Ontario Foundation through the *CN Miracle Match* program. Over the past three years, the *CN Miracle Match* has raised close to \$2 million for children's hospitals in Canada.
- Almost **150,000** children in Canada and the United States participated in ***Safe Crossing Week 2008***, an educational initiative focused on keeping kids safe at railroad crossings and away from trains.
- We announced the winners of our annual **\$10,000 *CN Safer Alberta Awards***, recognizing community groups and youth organizations that promote safety in Alberta.
- We launched the *CN Railroaders in the Community* employee volunteer grant program which provides **\$500 grants** to the charitable organizations employees serve.

CN STRONGER
Communities Fund

Railroaders
in the community
CN



1. Among the many youth-related charities he supports, CN Mechanical supervisor Ken Cook is Board chairperson for the non-profit Families First Society, which partners with community agencies to provide positive parenting programs and early childhood development education.

2. Wayne Gretzky visiting Edmonton's Stollery Children's Hospital in support of the *CN Miracle Match* program.

3. The *CN Future Links* program reaches more than 100,000 school-aged children in Canada each year, helping young golfers develop the skills, attitudes and self-esteem to succeed on and off the golf course.

A spirit of caring

CN has been at the heart of many of our communities for generations and our passion for excellence is expressed in a spirit of caring. The *CN Stronger Communities Fund* symbolizes our commitment to help build safer, stronger communities in three core areas:

- Health and Safety for Young People
- Transportation Education
- CN Railroaders in the Community employee volunteer grant program and United Way.

Health and Safety for Young People

CN supports programs that help prevent childhood injuries and promote healthy lifestyles for our youth. We also continue our longstanding partnerships with several injury-prevention organizations, such as Operation Lifesaver, SafeKids Canada, SafeKids USA, SMARTRISK, Safe Communities Canada, Safe Communities America and Mothers Against Drunk Driving (MADD).

All Aboard for Safety Program

Our flagship community-education program encompasses a wide range of initiatives to help prevent injuries and save lives, including safety presentations to **more than 300,000 children and adults**, mock train-car collisions, our safety train, Little Obie and his website for kids.

Transportation Education

North America's economic competitiveness and prosperity is strongly linked to the strength of its transportation infrastructure.

CN funds transportation and technical programs and scholarships for students studying in fields such as railroad engineering, logistics, occupational health and safety, mechanics and diesel electronics.

CN Railroaders in the Community

Employee Volunteer Grant Program

Our employees in Canada and the United States are generous and active volunteers, who make their communities a better place to live and work. The *CN Railroaders in the Community* Program recognizes employees' contribution of countless hours of personal time by providing **\$500 grants** to the charitable organizations they serve.

Did you know? *The CN Miracle Match* program raised:

- \$1 million for the Children's Hospital of Eastern Ontario Foundation in 2008.
- \$546,682 for the Stollery Children's Hospital Foundation in 2007.
- \$413,000 for the Children's Hospital of Western Ontario in 2006.



United Way/Centraide

Our company, employees and retirees collectively contribute **more than \$1.5 million every year** to United Way and Centraide agencies across Canada and the United States.

Sponsorships

CN knows there's a clear link between safe and healthy living and strong community spirit. Our sponsorship spending is focused on activities that make a positive impact in the communities through which our trains pass.

○ **CN Canadian Women's Open and CN Miracle Match.** We are the title sponsor of the CN Canadian Women's Open, the only Canadian event on the LPGA Tour. Under the *CN Miracle Match*, our donation matching program associated with the event, we match funds raised through various initiatives to benefit a children's hospital in the community hosting the tournament.

○ **Solheim Cup.** We are extending our support of the *CN Canadian Women's Open* and its competitive spirit through our sponsorship of the Solheim Cup, an international team event in women's golf in which players from the LPGA compete against players from the Ladies European Tour (LET). The 2009 Solheim Cup will take place near Chicago, Illinois, location of one of CN's major hubs.

○ **Spruce Meadows.** CN is the title sponsor of the **\$1 million CN International** at Spruce Meadows in Calgary, Alberta, one of the most exciting annual Grand Prix events in equestrian sport. The five-day event draws millions of television viewers and hundreds of thousands of visitors. Rail safety figures prominently at the event, with the announcement of the winners of the *CN Safer Alberta Awards*.

○ **CN Future Links.** At CN, we have learned that being passionate about what you do can take you a long way. That's why we are a sponsor of the Canada-wide *CN Future Links* junior golf development program that teaches kids about the sport through clinics, camps and special programs. For many kids, it is an early opportunity to discover a passion within.

○ **CN Adopt an Alouette.** This popular program lets a school "adopt" an Alouette football player who visits the school to provide mentoring and coaching to students. CN Police officers join the Alouettes at select schools to promote rail safety to the sometimes hard-to-reach teenage audience. Through the program, Alouette players reach an average of **60,000 adolescents** in Québec high schools annually.

○ **CN Community Ticket Program.** This is our way to thank local charities and community organizations who make their city a better place to live and work. In locations where CN has a significant number of employees and customer base, we provide complimentary hockey and baseball tickets to volunteers and people who work for non-profit organizations or perform community services.

In 2007, the CN Canadian Women's Open was nominated for the "Sport Event of the Year" by the Canadian Sport Tourism Alliance. CN was in competition for the title with the Canada Winter Games and the FIFA-Under 20 soccer organization.

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 2006 was \$346.8 million.

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 Canadian 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 dangerous good 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 (kW•h).

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.

Sustainability

The ability to meet present needs without compromising those of future generations. It relates to the continuity of economic, social, institutional and environmental aspects of human society, as well as the non-human environment.

Test Car

The TEST car is a refurbished passenger coach car 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 car 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.



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